

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Branch County	County Branch
Fiscal Year End 12/31/2006	Opinion Date 6/6/2006	Date Audit Report Submitted to State 6/14/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA		License Number 1101024055

Branch County, Michigan
FINANCIAL STATEMENTS
December 31, 2006

Branch County, Michigan

December 31, 2006

BOARD OF COMMISSIONERS

Ted Gordon	Chairperson
William Chinery	Vice-Chairperson
Jerry Hubbard	Commissioner
Dale Swift	Commissioner
Norman Heinemann	Commissioner
Imorean Rubley	Commissioner
Rodney Olney	Commissioner
Don Shemel	Commissioner

ADMINISTRATION AND OTHER ELECTED OFFICIALS

Michael Norman	Administrator
Sandra Thatcher	Treasurer
Terry Kulasiak	Clerk
Nancy Hutchins	Register of Deeds
Michael Hard	Drain Commissioner
Kirk Kashian	Prosecuting Attorney
Warren Canon	Sheriff

Branch County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
of Branch County
Coldwater, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Branch County, Michigan as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Branch County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Branch County Road Commission or the Community Health Center. The Branch County Road Commission represents 30% and 10%, respectively, of the assets and revenues of the aggregate discretely presented component units. The Community Health Center represents 47% and 73%, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Branch County Road Commission and the Community Health Center is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Branch County, Michigan as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2007 on our consideration of Branch County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Branch County's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 6, 2007

Branch County, Michigan

Management's Discussion and Analysis

December 31, 2006

The following is a discussion and analysis of Branch County's (the County's) financial performance and position, providing an overview of the activities for the year ended December 31, 2006. This analysis should be read in conjunction with the *Independent Auditors Report*, beginning on page i of this report, and with the County's financial statements, which follow this section.

Certain limited financial information is presented with respect to the Branch County Road Commission, Branch-Hillsdale-St. Joseph Community Health Agency, and Community Health Center. The reader should refer to the Road Commission's, Community Health Agency's and Community Health Center's separately issued financial statements for more detailed information.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets as of December 31, 2006, were \$33,405,704 (excluding component units).
- Governmental activities net assets were \$17,804,962.
- Business-type activities net assets were \$15,600,742.
- Component Unit net assets were \$83,734,530.

Fund Level:

- At the close of the fiscal year, the County's governmental funds reported a total ending fund balance of \$7,332,445 with \$451,539 being reserved, designated, or otherwise earmarked for specific purposes.
- The General Fund realized \$162,914 more in revenues and other financing sources than anticipated for the fiscal year. General Fund operations also expended \$6,878 less than appropriated.
- Overall, the General Fund balance increased by \$169,789 to \$1,723,519 with \$1,552,464 undesignated or available for general purposes.

Capital and Long-term Debt Activities:

- The primary government did not issue any new debt during the fiscal year.
- The total long-term debt for the primary government was \$10,156,153 with a net reduction of \$813,565 from the prior year.
- The Drainage Districts issued \$263,103 in new long-term notes.
- The total long-term debt for the component units (Drainage Districts and Board of Public Works only) was \$5,005,513 with a net reduction of \$132,227 from the prior year.
- The long-term debt for the Road Commission was \$578,144 and \$4,754,332 for the Community Health Center.
- The County remains well below its authorized legal debt limit.
- The total additions to the capital asset schedule for the primary government were \$1,586,236 and included such purchases as the Hudson Street parking lot, taxiway improvements and lawn equipment for the Airport, and a garage for the Commission on Aging.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report of the County consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and proprietary funds and other financial data.

Branch County, Michigan
Management's Discussion and Analysis

December 31, 2006

Government-wide Financial Statements (Reporting the County as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the County as a whole, and about its activities. Their purpose is to assist in answering the question, is the County, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the County's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the County's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the County's net assets changed during 2006. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- ***Governmental Activities*** - Most of the County's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the County's general government departments, law enforcement, the courts, the Board of Commissioner operations, and other countywide elected official operations are reported under these activities. This also includes the special revenue funds such as the Commission on Aging and Friend of the Court Funds.
- ***Business-type Activities*** - These activities operate like private businesses. The County charges fees to recover the cost of the services provided. The Delinquent Tax Revolving Fund, County Medical Facility Fund, and Jail Inmate Commissary are examples of these activities.
- ***Discretely Presented Component Units*** - Discretely Presented Component units are legally separate organizations for which the Board of Commissioners appoints a majority of the organization's policy board and there is a degree of financial accountability to the County. Five organizations are included as component units: the Branch County Road Commission, Branch-Hillsdale-St. Joseph Community Health Agency, Drainage Districts, Board of Public Works, and the Community Health Center.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental funds; however depreciation expense is reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.

Branch County, Michigan

Management's Discussion and Analysis

December 31, 2006

- Long-term liabilities, such as reserves for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Bond proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

In addition, it should be noted that the government-wide financial statements include the net value of the County's general capital assets such as buildings, land, cars, computer equipment, etc. These values are not included in the fund financial statements.

Fund Financial Statements (Reporting the County's Major Funds)

The fund financial statements, which begin on page 3, provide information on the County's significant (major) funds, and aggregated nonmajor funds. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the County uses to keep track of specific sources of funding and spending for a particular purpose. State law or policy requires some separate funds, such as the Commission on Aging and Child Care Fund; other funds are required by bond or grant agreements, such as the Friend of the Court Fund. Funds are also utilized to track specific operations; these include the internal services funds (e.g. Flexible Benefit Insurance Fund) as well as enterprise funds such as the Inmate Store and Tax Payment Funds.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for Branch County include the General Fund, the Revenue Sharing Reserve Fund, the Commission on Aging Fund, the Delinquent Tax Revolving Fund, the Emergency Services Fund, the Jail Millage Fund and the Medical Care Facility Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The County includes detailed information on its nonmajor funds in the other supplementary information section of this report.

The County's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the County's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the County's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted), *Capital Projects Funds* (used to report major capital acquisitions and construction), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest).
- **Proprietary Funds** - Services for which the County charges customers (whether outside the County structure or a County department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Medical Care Facility Fund. *Internal Service funds* report activities that provide supplies or service to the County's other operations, such as the Revolving Drain Equipment Fund. Internal Service funds are reported as governmental activities on the government-wide statements.

Branch County, Michigan
Management's Discussion and Analysis

December 31, 2006

- **Fiduciary Funds** - The County acts as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The County's fiduciary activities are reported in separate statements of Fiduciary Net Assets and Changes in Plan Net Assets on pages 19 and 20. These funds, which include trust and agency funds and the Pension Fund, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the County to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 24 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental, proprietary, and fiduciary funds. These funds, except for the fiduciary funds, are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As previously stated, Branch County's combined net assets were \$33,405,704 at the end of this fiscal year's operations. The net assets of the governmental activities were \$17,804,962; the business type activities were \$15,600,742.

Net Assets as of December 31, 2006 and 2005

	Governmental Activities 2006	Governmental Activities 2005	Business Type Activities 2006	Business Type Activities 2005	Total Primary Government 2006	Total Primary Government 2005
Current and Other Assets	\$ 10,451,018	\$ 10,561,600	\$ 12,517,851	\$ 10,998,025	\$ 22,968,869	\$ 21,559,625
Capital Assets	20,410,739	20,304,932	3,906,948	4,170,454	24,317,687	24,475,386
Total Assets	\$ 30,861,757	\$ 30,866,532	\$ 16,424,799	\$ 15,168,479	\$ 47,286,556	\$ 46,035,011
Current Liabilities	\$ 1,513,267	\$ 1,409,644	\$ 673,838	\$ 479,009	\$ 2,187,105	\$ 1,888,653
Noncurrent Liabilities	11,543,528	14,134,251	150,219	179,436	11,693,747	14,313,687
Total Liabilities	\$ 13,056,795	\$ 15,543,895	\$ 824,057	\$ 658,445	\$ 13,880,852	\$ 16,202,340
Net Assets						
Invested in Capital Assets (Net of related debt)	\$ 11,283,167	\$ 10,202,224	\$ 3,906,948	\$ 4,170,454	\$ 15,190,115	\$ 14,372,678
Restricted	4,131,909	3,025,853	91,891	26,698	4,223,800	3,052,551
Unrestricted	2,389,886	2,094,560	11,601,903	10,312,882	13,991,789	12,407,442
Total Net Assets	\$ 17,804,962	\$ 15,322,637	\$ 15,600,742	\$ 14,510,034	\$ 33,405,704	\$ 29,832,671

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the County's primary government net assets changed during the fiscal year:

Branch County, Michigan
Management's Discussion and Analysis
December 31, 2006

Changes in Net Assets for the Fiscal Year Ending December 31, 2006 and 2005

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>	<u>Business Type Activities 2006</u>	<u>Business Type Activities 2005</u>	<u>Total 2006</u>	<u>Total 2005</u>
Revenues						
Charges for Services	\$ 4,477,834	\$ 4,543,540	\$ 8,510,291	\$ 7,871,282	\$ 12,988,125	\$ 12,414,822
Grants and Contributions	2,467,650	3,608,716	845,264	1,210,793	3,312,914	4,819,509
General Revenues						
Property Taxes	9,916,793	9,350,338	-	-	9,916,793	9,350,338
Investment Earnings	346,153	222,433	387,953	247,973	734,106	470,406
Miscellaneous	<u>471,078</u>	<u>756,005</u>	<u>7,692</u>	<u>8,789</u>	<u>478,770</u>	<u>764,794</u>
Total Revenues	17,679,508	18,481,032	9,751,200	9,338,837	27,430,708	27,819,869
Expenses						
General Government	6,727,241	6,788,116	-	-	6,727,241	6,788,116
Public Safety	4,044,773	4,519,548	-	-	4,044,773	4,519,548
Public Works	295,154	285,466	-	-	295,154	285,466
Health and Welfare	4,059,883	3,737,123	-	-	4,059,883	3,737,123
Community and Econ. Dev.	156,708	104,717	-	-	156,708	104,717
Recreation and Cultural	302,005	253,212	-	-	302,005	253,212
Other	<u>435,714</u>	<u>1,188,955</u>	<u>7,998,442</u>	<u>8,751,221</u>	<u>8,434,156</u>	<u>9,940,176</u>
Total Expenses	16,021,478	16,877,137	7,998,442	8,751,221	24,019,920	25,628,358
Excess (deficiency)	1,658,030	1,603,895	1,752,758	587,616	3,410,788	2,191,511
Transfers	<u>662,050</u>	<u>680,027</u>	<u>(662,050)</u>	<u>(680,027)</u>	<u>-0-</u>	<u>-0-</u>
Increase (decrease) in Net Assets	2,320,080	2,283,922	1,090,708	(92,411)	3,410,788	2,191,511
Restated Net Assets - Beginning	<u>15,484,882</u>	<u>13,038,715</u>	<u>14,510,034</u>	<u>14,602,445</u>	<u>29,994,916</u>	<u>27,641,160</u>
Net Assets - Ending	<u>\$17,804,962</u>	<u>\$15,322,637</u>	<u>\$15,600,742</u>	<u>\$14,510,034</u>	<u>\$ 33,405,704</u>	<u>\$ 29,832,671</u>

Governmental Activities:

The result of 2006 governmental activity was an increase of \$2,320,080 to lift net assets to \$17,804,962. Of the total governmental activities' net assets, \$11,283,167 is invested in capital assets less related debt, \$4,131,909 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the County government. The balance of \$2,389,886 is listed as unrestricted, having no legal commitment.

Revenues:

The three largest revenue categories for governmental activities were property taxes at 56%, charges for services at 26%, and grants and contributions at 14%. The County levied five property tax millages for the 2005 tax levy which is recognized as revenue in 2006, one being for general government operations at 3.1919 mills, which is not assigned to any particular activity, one for 911 Operating at .7500 mills, one for commission of aging (operating) at .7383 mills, one for Jail and Law Enforcement at .4885 mills, and one for veterans relief at .1000. The County also levied 3.1708 mills for general operations in July of 2006 which is recognized as revenue in 2006. Charges for services, which reimburse the County for specific activities, are the second largest source of governmental activity revenue. Examples include District Court fees and services, Clerk's Office filing fees, Register of Deeds filing fees, and inmate telephone charges. Grants and contributions are the third largest source of governmental activity revenue.

Branch County, Michigan
Management's Discussion and Analysis
December 31, 2006

Expenses:

General government is the largest governmental activity, expending \$6,727,241 of the \$16,021,478 governmental activities total and includes offices such as Circuit Court, District Court, Probate/Juvenile Court, Prosecuting Attorney, Board of Commissioners, Treasurer, Clerk, Register of Deeds, Elections and MSU Extension. Health and Welfare is the second largest area, expending \$4,059,883. Health and Welfare includes the Commission on Aging administration, and Ambulance operations.

Business-type Activities:

Net assets in business-type activities increased by \$1,090,708 during 2006.

Of the total business-type activities net assets, \$11,601,903 is reported as unrestricted. However, it is important to note that although reported as unrestricted, many of these assets are anticipated to be designated through Board of Commissioners action to be spent on General Fund activities and self-funding of delinquent tax payments in future years.

FINANCIAL ANALYSIS OF THE COUNTY'S MAJOR AND NON MAJOR FUNDS

As the County completed 2006, its governmental funds reported *combined* fund balances of \$7,332,444 a net increase of \$1,446,290. The net changes are summarized in the following chart:

	General Fund	Revenue Sharing Reserve	Commission on Aging	Emergency Services	Jail Millage	Nonmajor Governmental Funds
Fund Balance 12/31/05	\$ 1,553,730	\$ 2,331,152	\$ 192,410	\$ 632,970	\$ 114,597	\$1,061,295
Fund Balance 12/31/06	\$ 1,723,519	\$ 3,314,940	\$ 175,641	\$ 810,733	\$ 85,558	\$1,222,053
Net Change	\$ 169,789	\$ 983,788	\$ (16,769)	\$ 177,763	\$ (29,039)	\$ 160,758

The General Fund balance increased by \$169,789. This is mainly due to greater than anticipated current and delinquent property tax collections. The Revenue Sharing Reserve Fund balance increased by \$983,788. The Commission on Aging Fund balance decreased by \$16,769. The Emergency Services Fund increased by \$177,763. The Jail Millage fund balance decreased by \$29,039. The combined nonmajor funds increased by \$160,758 due mainly to an increase of \$170,136 in the Commission on Aging Facility Fund.

General Fund:

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement or Board policy, all County revenues and expenditures are recorded in the General Fund. As of December 31, 2006, the General Fund reported a fund balance of \$1,723,519. This amount is an increase of \$169,789 from the fund balance of \$1,553,730 reported as of December 31, 2005. Of the total fund balance, \$170,795 is reserved, designated or earmarked for specific purposes.

The General Fund 2006 expenditures exceeded 2006 revenues by \$473,314 however; the General Fund also supports the operations of other funds including the Child Care Funds, Friend of the Court, Circuit Court Law Library Fund, and the Airport Fund.

Branch County, Michigan
Management's Discussion and Analysis
December 31, 2006

General Fund Budgetary Highlights:

Branch County's budget is a dynamic document. Although adopted in December (prior to the start of the year), the budget is frequently amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$12,415,827, \$162,914 above the final amended budget. There were some wide variations in individual revenue accounts reflecting the tightening national and local economy. Significantly, property tax revenue was \$114,950 greater than budgeted amounts.

The County's General Fund total expenditures and other financing uses budget was increased by \$236,420 (just slightly more than 2% above the original budget) during 2006. Amendments that increased costs to the general fund within the year included the wireless communication project between the Sheriff's Department, County Courts, and the Emergency/911 Center and increased levels of invoices for autopsies performed by the Medical Examiner's Office.

Actual County expenditures for 2006 were \$6,878 below budget. This is due to several reasons including:

- \$29,803 less than planned expenditures for costs of professional services.
- \$15,887 less than planned expenditures for costs of the District Court.

Revenue Sharing Reserve Fund:

As of the last quarter of 2004, the State eliminated State Shared Revenue payments to Counties. In its place Counties are allowed to move up the collection of the levied County allocated millage. Part of the early collection is placed in the Revenue Sharing Reserve Fund. Counties are then allowed to draw down these funds in lieu of receiving State Shared Revenue payments. As of December 31, 2006, the Revenue Sharing Reserve Fund reported a balance of \$3,314,940, an increase of \$983,788 from the prior year. Of the total fund balance, all \$3,314,940 is undesignated/unreserved.

Commission on Aging Fund:

The Branch County Commission on Aging through the New Horizons Senior Center provides a variety of health and recreation services and activities for the betterment of the senior citizens of the County. Funding is received through sources that include county millage, state and federal grants, and fees and donations generated locally. As of December 31, 2006, the Commission on Aging Fund reported a balance of \$175,641, a decrease of \$16,769 from the prior year. Of the total balance, all \$175,641 is undesignated/unreserved.

Emergency Services Fund:

Emergency Services Fund includes a 24-hour a day; 7 days a week central dispatch facility as well as the County's emergency management response. This department answers all emergency and non-emergency calls for service for police, fire, and EMS in Branch County. The program is primarily funded by a millage. As of December 31, 2006, the Emergency Services Fund reported a fund balance of \$810,733, an increase of \$177,763 from the prior year. Of the total fund balance, all \$810,733 is undesignated/unreserved.

Branch County, Michigan

Management's Discussion and Analysis

December 31, 2006

CAPITAL ASSETS ADMINISTRATION

Capital Assets - At the end of Fiscal Year 2006, the County had invested \$24,317,687 for the primary government and \$14,204,478 for the component units (excluding the Community Health Agency, Road Commission, and Community Mental Health Services, see separately issued financial statements), net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$17,281,830 for the primary government. Depreciation charges for the fiscal year totaled \$1,610,474 for the primary government and \$521,726 for the component units.

	Governmental Activities	Business- type Activities	Component Unit Drains	Component Unit Board of Public Works	Total
Land	\$ 1,169,126	\$ -	\$ -	\$ 1,096,843	\$ 2,265,969
Land improvements, net	3,533,839	228,392	-	-	3,762,231
Buildings, net	11,916,372	3,292,378	-	2,906,786	18,115,536
Equipment, net	3,260,231	386,178	30,957	211,360	3,888,726
Vehicles, net	531,171	-	2,306	-	533,477
Drains, net	-	-	1,570,771	-	1,570,771
Sewer, net	-	-	-	8,385,455	8,385,455
Capital assets, net	<u>\$ 20,410,739</u>	<u>\$ 3,906,948</u>	<u>\$ 1,604,034</u>	<u>\$12,600,444</u>	<u>\$ 38,522,165</u>

BRANCH COUNTY GOVERNMENT ECONOMIC OUTLOOK:

- State revenue sharing has been eliminated due to state budget problems.
- Other state and federal revenues and/or grants are stagnant.
- Property tax revenue is not rising as rapidly as in past years.
- Investment earnings are near historically low levels.
- Health and dental insurance premiums are rising much faster than the rate of inflation.
- Liability insurance premiums are rising much faster than the rate of inflation.
- Utility costs are rising faster than the rate of inflation.

These factors were considered in adopting the Budget for 2007. A usage of \$175,000 of the County's limited fund balance was included to balance the General Fund Budget. The County continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE COUNTY

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Branch County Treasurer's Office at (517) 279-4321 or Branch County Administrator's Office at (517) 279-4301.

BASIC FINANCIAL STATEMENTS

Branch County, Michigan
STATEMENT OF NET ASSETS
December 31, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,072,956	\$ 3,303,314	\$ 4,376,270	\$ 7,429,366
Investments	4,224,815	3,733,985	7,958,800	2,925,609
Investments - restricted	-	-	-0-	4,867,988
Receivables	4,542,977	1,986,337	6,529,314	14,934,593
Inventories	4,181	-	4,181	2,053,851
Prepaid expenses	13,500	74,312	87,812	-
Other current assets	-	-	-0-	2,222,085
Due from other governmental units	448,589	-	448,589	233,590
Total current assets	10,307,018	9,097,948	19,404,966	34,667,082
Noncurrent assets				
Restricted cash and cash equivalents	-	1,101,555	1,101,555	-
Restricted investments	-	1,618,348	1,618,348	-
Noncurrent cash and cash equivalents	-	-	-0-	2,675,363
Noncurrent investments	-	700,000	700,000	316,331
Advance to other governmental units	144,000	-	144,000	-
Capital assets not being depreciated	1,169,126	-	1,169,126	6,963,251
Capital assets, net of accumulated depreciation	19,241,613	3,906,948	23,148,561	55,463,495
Other noncurrent assets	-	-	-0-	556,435
Total noncurrent assets	20,554,739	7,326,851	27,881,590	65,974,875
TOTAL ASSETS	30,861,757	16,424,799	47,286,556	100,641,957
LIABILITIES				
Current liabilities				
Accounts payable	211,980	162,139	374,119	1,899,542
Accrued payroll	169,780	100,304	270,084	121,288
Quality assurance supplement tax liabilities	-	167,541	167,541	-
Other accrued liabilities	159,860	24,741	184,601	3,482,062
Due to other governmental units	69,427	26,319	95,746	109,000
Payable from restricted assets-				
due to patients	-	10,909	10,909	-
Short-term debt	-	-	-0-	351,473
Deferred revenue	-	-	-0-	141,831
Current portion of compensated absences	69,648	181,885	251,533	164,390
Current portion of long-term debt	832,572	-	832,572	975,380
Total current liabilities	1,513,267	673,838	2,187,105	7,244,966
Noncurrent liabilities				
Deferred revenue	2,587,699	-	2,587,699	-
Advance from other governmental units	34,000	-	34,000	35,000
Compensated absences	626,829	150,219	777,048	46,367
Noncurrent portion of long-term debt	8,295,000	-	8,295,000	9,231,094
Other noncurrent liabilities	-	-	-0-	350,000
Total noncurrent liabilities	11,543,528	150,219	11,693,747	9,662,461
TOTAL LIABILITIES	13,056,795	824,057	13,880,852	16,907,427
NET ASSETS				
Invested in capital assets, net of related debt	11,283,167	3,906,948	15,190,115	56,970,556
Restricted for:				
Public safety	85,558	-	85,558	-
Debt service	-	-	-0-	334,943
Other purposes	4,046,351	91,891	4,138,242	1,533,687
Unrestricted	2,389,886	11,601,903	13,991,789	24,895,344
TOTAL NET ASSETS	\$ 17,804,962	\$ 15,600,742	\$ 33,405,704	\$ 83,734,530

See accompanying notes to financial statements.

Branch County, Michigan
STATEMENT OF ACTIVITIES
Year Ended December 31, 2006

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets					Component Units
	Program Revenues			Primary Government		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government: Governmental activities:	Expenses					
	\$ 6,727,241	\$ 2,389,249	\$ 1,611,214	\$ -	\$ (2,726,778)	\$ -
	4,044,773	814,442	176,657	4,000	(3,049,874)	-
	295,154	-	-	-	(295,154)	-
	4,059,883	776,002	675,779	-	(2,608,102)	-
	156,708	-	-	-	(156,708)	-
	302,005	331,826	-	-	29,821	-
	435,714	166,315	-	-	(269,399)	-
	16,021,478	4,477,834	2,463,650	4,000	(9,075,994)	-0-
	-0-	-	-	-	(9,075,994)	-0-
Business-type activities:						
	9,446	405,909	-	-	396,463	-
	7,888,230	8,011,219	845,264	-	968,253	-
	100,766	93,163	-	-	(7,603)	-
Total business-type activities	7,998,442	8,510,291	845,264	-0-	1,357,113	-0-
Total primary government	\$ 24,019,920	\$ 12,988,125	\$ 3,308,914	\$ 4,000	(9,075,994)	-0-
Component units:						
	\$ 6,686,074	\$ 1,756,579	\$ 5,316,761	\$ 397,677	-	-0-
	6,959,878	880,357	5,039,117	-	-	-0-
	740,237	-	-	972,987	-	-0-
	1,030,543	570,904	-	14,986	-	-0-
	58,433,623	58,370,311	140,269	-	-	-0-
	218,551	-	247,680	-	-	-0-
	15,450	-	15,450	-	-	-0-
	\$ 74,084,356	\$ 61,578,151	\$ 10,759,277	\$ 1,385,650	-0-	(361,278)
	General revenues:					
Property taxes				9,916,793	-	789,272
Investment earnings				346,153	387,953	965,646
Appropriations				-	-	-0-
Cigarette tax				-	-	56,687
Miscellaneous				604,539	7,692	456,397
Special item - loss on disposal of assets				(133,461)	-	(3,742)
Transfers				662,050	(662,050)	-
Total general revenues, special item, and transfers				11,396,074	(266,405)	2,264,260
Change in net assets				2,320,080	1,090,708	1,902,982
Restated net assets, beginning of the year				15,484,882	14,510,034	81,831,548
Net assets, end of the year				\$ 17,804,962	\$ 15,600,742	\$ 83,734,530

See accompanying notes to financial statements.

See accompanying notes to financial statements.

Branch County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2006

	General	Revenue Sharing Reserve	Commission on Aging
ASSETS			
Cash and cash equivalents	\$ (2,317,357)	\$ 1,344,245	\$ 183,496
Investments	3,443,450	514,698	-
Accounts receivable	8,913	-	5,957
Taxes receivable	623,063	1,455,997	862,759
Inventories	-	-	-
Prepays	-	-	-
Due from other funds	-	-	5,199
Due from other governmental units -			
Local	13,281	-	-
Federal/State	283,453	-	-
Advances to other funds	10,000	-	-
Advances to other governmental units	144,000	-	-
TOTAL ASSETS	\$ 2,208,803	\$ 3,314,940	\$ 1,057,411
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 118,333	\$ -	\$ 10,867
Accrued payroll	129,911	-	7,565
Other accrued liabilities	17,732	-	579
Due to other funds	-	-	-
Due to other governmental units	65,289	-	-
Advance from State	-	-	-
Deferred revenue	154,019	-	862,759
TOTAL LIABILITIES	485,284	-0-	881,770
FUND BALANCES			
Reserved for:			
Inventories	-	-	-
Prepays	-	-	-
Advances	154,000	-	-
Veterans	260	-	-
Remonumentation	16,535	-	-
Clock tower expenditures	-	-	-
Unreserved			
Designated for debt service	-	-	-
Undesignated, reported in:			
General fund	1,552,724	-	-
Special revenue funds	-	3,314,940	175,641
TOTAL FUND BALANCES	1,723,519	3,314,940	175,641
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,208,803	\$ 3,314,940	\$ 1,057,411

See accompanying notes to financial statements.

Emergency Services	Jail Millage	Nonmajor Governmental Funds	Total Governmental Funds
\$ 557,982	\$ 85,558	\$ 1,183,799	\$ 1,037,723
263,667	-	3,000	4,224,815
10,016	-	5,351	30,237
882,408	570,859	117,654	4,512,740
-	-	370	370
-	-	13,500	13,500
-	-	-	5,199
-	-	-	13,281
-	-	151,855	435,308
-	-	-	10,000
-	-	-	144,000
<u>\$ 1,714,073</u>	<u>\$ 656,417</u>	<u>\$ 1,475,529</u>	<u>\$ 10,427,173</u>
\$ 2,809	\$ -	\$ 79,971	\$ 211,980
16,836	-	15,468	169,780
1,287	-	1,183	20,781
-	-	5,199	5,199
-	-	-	65,289
-	-	34,000	34,000
882,408	570,859	117,654	2,587,699
903,340	570,859	253,475	3,094,728
-	-	370	370
-	-	13,500	13,500
-	-	-	154,000
-	-	-	260
-	-	-	16,535
-	-	6,616	6,616
-	-	260,258	260,258
-	-	-	1,552,724
810,733	85,558	941,310	5,328,182
810,733	85,558	1,222,054	7,332,445
<u>\$ 1,714,073</u>	<u>\$ 656,417</u>	<u>\$ 1,475,529</u>	<u>\$ 10,427,173</u>

Branch County, Michigan

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2006

Total fund balances - governmental funds \$ 7,332,445

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 32,259,880	
Accumulated depreciation is	<u>(11,849,141)</u>	
Capital assets, net		20,410,739

Internal Service Funds are used by management to charge the costs
of certain activities to individual funds. The assets and liabilities
of the Internal Service Funds are included in the governmental activities
in the Government-wide Statement of Net Assets

Net assets of governmental activities accounted for in Internal Service Funds	\$ 24,956	
Net capital assets of Internal Service Funds included in total capital assets above	<u>(50)</u>	
		24,906

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Direct County obligations	\$ 9,127,572	
Accrued interest payable	139,079	
Compensated absences	<u>696,477</u>	
		<u>(9,963,128)</u>

Net assets of governmental activities \$ 17,804,962

Branch County, Michigan

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2006

	General	Revenue Sharing Reserve	Commission on Aging
REVENUES			
Taxes	\$ 5,872,879	\$ 1,712,173	\$ 541,842
Licenses and permits	97,930	-	-
Intergovernmental	1,079,706	-	86,693
Charges for services	2,010,076	-	161,505
Fines and forfeits	119,520	-	-
Interest and rents	612,900	51,731	28,175
Other	559,491	-	17,433
TOTAL REVENUES	10,352,502	1,763,904	835,648
EXPENDITURES			
Current			
General government	5,314,290	-	-
Public safety	4,166,708	-	-
Public works	74,281	-	-
Health and welfare	664,137	-	848,173
Community and economic development	6,658	-	-
Recreation and cultural	2,000	-	-
Other	396,231	601	-
Capital outlay	152,160	-	4,244
Debt service	49,351	-	-
TOTAL EXPENDITURES	10,825,816	601	852,417
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(473,314)	1,763,303	(16,769)
OTHER FINANCING SOURCES (USES)			
Transfers in	2,063,325	-	-
Transfers out	(1,420,222)	(779,515)	-
TOTAL OTHER FINANCING SOURCES (USES)	643,103	(779,515)	-0-
NET CHANGE IN FUND BALANCES	169,789	983,788	(16,769)
Fund balances, beginning of year	1,553,730	2,331,152	192,410
Fund balances, end of year	\$ 1,723,519	\$ 3,314,940	\$ 175,641

See accompanying notes to financial statements.

Emergency Services	Jail Millage	Nonmajor Governmental Funds	Total Governmental Funds
\$ 838,057	\$ 545,816	\$ 406,026	\$ 9,916,793
-	-	340,502	438,432
3,668	-	1,772,911	2,942,978
226,111	4,000	520,981	2,922,673
-	-	20,415	139,935
44,315	2,779	71,464	811,364
607	-	63,263	640,794
1,112,758	552,595	3,195,562	17,812,969
-	-	1,024,702	6,338,992
-	2,939	405,924	4,575,571
-	-	-	74,281
943,875	-	1,305,400	3,761,585
-	-	-	6,658
-	-	258,475	260,475
-	-	-	396,832
17,298	20,348	187,479	381,529
7,131	-	1,176,323	1,232,805
968,304	23,287	4,358,303	17,028,728
144,454	529,308	(1,162,741)	784,241
33,309	-	1,569,764	3,666,398
-	(558,347)	(246,264)	(3,004,348)
33,309	(558,347)	1,323,500	662,050
177,763	(29,039)	160,759	1,446,291
632,970	114,597	1,061,295	5,886,154
<u>\$ 810,733</u>	<u>\$ 85,558</u>	<u>\$ 1,222,054</u>	<u>\$ 7,332,445</u>

Branch County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

Net change in fund balances - total governmental funds **\$ 1,446,291**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,515,707	
Depreciation expense	<u>(1,276,439)</u>	
Excess of capital outlay over depreciation expense		239,268

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Net income from governmental activities accounted for in Internal Service Funds	2,221	
Depreciation expense of Internal Service Funds included in the total above	<u>50</u>	
		2,271

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal and capital lease retirement	785,136
---------------------------------------------	---------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Loss on disposal of capital assets	(133,461)	
Decrease in accrued interest payable	11,955	
(Increase) in accrued compensated absences	<u>(31,380)</u>	
		<u>(152,886)</u>

Change in net assets of governmental activities **\$ 2,320,080**

See accompanying notes to financial statements.

Branch County, Michigan

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2006

	Business-type		
	Delinquent Tax Revolving	Medical Care Facility	Nonmajor Enterprise Fund (Jail Commissary)
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,814,580	\$ 1,459,586	\$ 29,148
Investments	2,863,375	870,610	-
Accounts receivable	-	756,784	-
Delinquent taxes receivable	1,229,553	-	-
Inventories	-	-	-
Prepaid expenses	-	74,312	-
Total current assets	5,907,508	3,161,292	29,148
Noncurrent assets			
Investments	700,000	-	-
Restricted cash and cash equivalents	-	1,101,555	-
Restricted investments	-	1,618,348	-
Capital assets, net of accumulated depreciation	-	3,906,948	-
Total noncurrent assets	700,000	6,626,851	-0-
TOTAL ASSETS	6,607,508	9,788,143	29,148
LIABILITIES			
Current liabilities			
Accounts payable	828	155,200	6,111
Accrued payroll	-	100,304	-
Other accrued liabilities	-	24,741	-
Quality assurance supplement tax liabilities	-	167,541	-
Due to other governmental units	5,595	20,724	-
Payable from restricted assets - due to patients	-	10,909	-
Current portion of compensated absences	-	181,885	-
Total current liabilities	6,423	661,304	6,111
Noncurrent liabilities			
Advance from other funds	-	-	-
Noncurrent portion of compensated absences	-	150,219	-
Total noncurrent liabilities	-0-	150,219	-0-
TOTAL LIABILITIES	6,423	811,523	6,111

Activities	Governmental Activities
Total	Internal Service Fund (Revolving Drain Equipment)
\$ 3,303,314	\$ 35,233
3,733,985	-
756,784	-
1,229,553	-
-0-	3,811
74,312	-
9,097,948	39,044
700,000	-
1,101,555	-
1,618,348	-
3,906,948	50
7,326,851	50
16,424,799	39,094
162,139	-
100,304	-
24,741	-
167,541	-
26,319	4,138
10,909	-
181,885	-
673,838	4,138
-0-	10,000
150,219	-
150,219	10,000
824,057	14,138

Branch County, Michigan

Proprietary Funds

STATEMENT OF NET ASSETS - CONTINUED

December 31, 2006

	Business-type		
	Delinquent Tax Revolving	Medical Care Facility	Nonmajor Enterprise Fund (Jail Commissary)
NET ASSETS			
Invested in capital assets, net of related debt	\$ -	\$ 3,906,948	\$ -
Restricted for tax administration	65,250	-	-
Restricted for memorials	-	26,641	-
Unrestricted	6,535,835	5,043,031	23,037
TOTAL NET ASSETS	\$ 6,601,085	\$ 8,976,620	\$ 23,037

See accompanying notes to financial statements.

<u>Activities</u>	<u>Governmental Activities</u>
	Internal Service Fund (Revolving Drain Equipment)
<u>Total</u>	
\$ 3,906,948	\$ 50
65,250	-
26,641	-
11,601,903	24,906
<u>\$ 15,600,742</u>	<u>\$ 24,956</u>

Branch County, Michigan

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2006

	Business-type		
	Delinquent Tax Revolving	Medical Care Facility	Nonmajor Enterprise Fund (Jail Commissary)
OPERATING REVENUES			
Sales	\$ -	\$ 3,307	\$ 93,163
Interest on taxes	272,597	-	-
Charges for services	113,999	7,928,378	-
Other	19,313	79,534	-
TOTAL OPERATING REVENUES	405,909	8,011,219	93,163
OPERATING EXPENSES			
Personal services	-	4,326,266	-
Fringe benefits	-	1,091,830	-
Operating supplies	-	551,561	100,540
Contractual services	-	600,287	-
Depreciation	-	334,035	-
Other	9,446	516,742	226
TOTAL OPERATING EXPENSES	9,446	7,420,721	100,766
OPERATING INCOME (LOSS)	396,463	590,498	(7,603)
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	226,806	161,147	-
Quality assurance supplement tax revenue	-	845,264	-
Quality assurance supplement tax expense	-	(330,120)	-
Maintenance of effort	-	(129,640)	-
Memorial revenue	-	7,692	-
Memorial expense	-	(7,749)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	226,806	546,594	-0-
INCOME (LOSS) BEFORE TRANSFERS	623,269	1,137,092	(7,603)
TRANSFERS OUT	(662,050)	-	-
CHANGE IN NET ASSETS	(38,781)	1,137,092	(7,603)
Net assets, beginning of year	6,639,866	7,839,528	30,640
Net assets, end of year	\$ 6,601,085	\$ 8,976,620	\$ 23,037

See accompanying notes to financial statements.

Activities	Governmental Activities
Total	Internal Service Fund (Revolving Drain Equipment)
\$ 96,470	\$ -
272,597	-
8,042,377	-
98,847	4,593
8,510,291	4,593
4,326,266	-
1,091,830	-
652,101	-
600,287	-
334,035	50
526,414	3,488
7,530,933	3,538
979,358	1,055
387,953	1,166
845,264	-
(330,120)	-
(129,640)	-
7,692	-
(7,749)	-
773,400	1,166
1,752,758	2,221
(662,050)	-
1,090,708	2,221
14,510,034	22,735
\$ 15,600,742	\$ 24,956

Branch County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2006

	Business-type		
	Delinquent Tax Revolving	Medical Care Facility	Nonmajor Enterprise Fund (Jail Commissary)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 346,163	\$ 7,870,350	\$ 93,163
Cash paid to suppliers	(4,785)	(1,541,700)	(100,296)
Cash paid for employee benefits	-	(1,091,830)	-
Cash paid to employees	-	(4,306,290)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	341,378	930,530	(7,133)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Maintenance of effort	-	(129,640)	-
Memorial revenue	-	7,692	-
Memorial expense	-	(7,749)	-
Transfers out	(662,050)	-	-
Quality assurance supplement tax revenue	-	845,264	-
Quality assurance supplement tax expense	-	(330,120)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(662,050)	385,447	-0-
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital acquisitions	-	(70,529)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(3,563,375)	(2,488,958)	-
Maturity of investments	2,764,149	762,449	-
Interest revenue	226,806	161,147	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(572,420)	(1,565,362)	-0-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(893,092)	(319,914)	(7,133)
Cash and cash equivalents, beginning of year	2,707,672	2,881,055	36,281
Cash and cash equivalents, end of year	<u>\$ 1,814,580</u>	<u>\$ 2,561,141</u>	<u>\$ 29,148</u>

See accompanying notes to financial statements.

Activities	Governmental Activities
Total	Internal Service Fund (Revolving Drain Equipment)
\$ 8,309,676	\$ 4,593
(1,646,781)	(3,588)
(1,091,830)	-
(4,306,290)	-
1,264,775	1,005
(129,640)	-
7,692	-
(7,749)	-
(662,050)	-
845,264	-
(330,120)	-
(276,603)	-0-
(70,529)	-
(6,052,333)	-
3,526,598	-
387,953	1,166
(2,137,782)	1,166
(1,220,139)	2,171
5,625,008	33,062
<u>\$ 4,404,869</u>	<u>\$ 35,233</u>

Branch County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2006

	Business-type		
	Delinquent Tax Revolving	Medical Care Facility	Nonmajor Enterprise Fund (Jail Commissary)
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 396,463	\$ 590,498	\$ (7,603)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities			
Depreciation	-	334,035	-
(Increase) in accounts receivable	-	(140,869)	-
(Increase) in delinquent taxes receivable	(59,746)	-	-
(Increase) in inventories	-	-	-
(Increase) in prepaid expenses	-	(13,615)	-
Increase in accounts payable	828	43,856	470
Increase in accrued payroll	-	19,976	-
(Decrease) in other accrued liabilities	-	(70,017)	-
Increase in quality assurance supplement tax liabilities	-	167,541	-
Increase (decrease) in due to other governmental units	3,833	(1,659)	-
Increase in due to patients	-	784	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 341,378</u>	<u>\$ 930,530</u>	<u>\$ (7,133)</u>

See accompanying notes to financial statements.

<u>Activities</u>	<u>Governmental Activities</u>
<u>Total</u>	<u>Internal Service Fund (Revolving Drain Equipment)</u>
\$ 979,358	\$ 1,055
334,035	50
(140,869)	-
(59,746)	-
-0-	(100)
(13,615)	-
45,154	-
19,976	-
(70,017)	-
167,541	-
2,174	-
784	-
<u>\$ 1,264,775</u>	<u>\$ 1,005</u>

Branch County, Michigan

Fiduciary Funds

STATEMENT OF NET ASSETS

December 31, 2006

	Agency Funds	Pension Fund
ASSETS		
Cash	\$ 1,414,122	\$ -
Investments	-	32,749,614
TOTAL ASSETS	<u>\$ 1,414,122</u>	<u>\$ 32,749,614</u>
LIABILITIES		
Undistributed collections payable	\$ 1,464	\$ -
Defendant bonds payable	193,842	-
Due to other governmental units		
Federal/State	41,976	-
Local	1,153,482	-
Due to individuals and agencies	23,358	-
TOTAL LIABILITIES	<u>\$ 1,414,122</u>	<u>-0-</u>
NET ASSETS		
Held in trust for pension benefits		32,749,614
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 32,749,614</u>

See accompanying notes to financial statements.

Branch County, Michigan

Pension Trust Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

Year Ended December 31, 2006

	<u>Pension Fund</u>
ADDITIONS	
Investment income	
Interest and dividends	\$ 1,855,345
Contributions	
Employer	510,359
Employee	<u>897,835</u>
Total additions	3,263,539
DEDUCTIONS	
Benefit payments	1,589,731
Administrative expenses	<u>139,885</u>
Total deductions	<u>1,729,616</u>
CHANGE IN NET ASSETS	1,533,923
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>31,215,691</u>
End of year	<u><u>\$ 32,749,614</u></u>

See accompanying notes to financial statements.

Branch County, Michigan

Component Units

COMBINING STATEMENT OF NET ASSETS

December 31, 2006

	Road Commission	Branch-Hillsdale- St. Joseph Community Health Agency	Community Health Center
ASSETS			
Current assets			
Cash and cash equivalents	\$ 293,208	\$ 913,652	\$ 4,512,532
Investments	-	-	2,874,893
Investments - restricted	-	-	4,867,988
Receivables	780,621	46,401	7,504,365
Due from other governmental units	-	229,452	-
Inventories	575,284	118,805	1,332,609
Other current assets	3,504	196,631	2,021,950
Total current assets	1,652,617	1,504,941	23,114,337
Noncurrent assets			
Cash and cash equivalents	-	-	2,675,363
Investments	-	-	316,331
Capital assets not being depreciated	3,330,765	-	2,535,643
Capital assets, net of accumulated depreciation	24,908,285	14,167	17,433,408
Other noncurrent assets	-	-	556,435
Total noncurrent assets	28,239,050	14,167	23,517,180
TOTAL ASSETS	29,891,667	1,519,108	46,631,517
LIABILITIES			
Current liabilities			
Accounts payable	29,938	154,188	1,696,339
Accrued payroll	-	119,359	-
Other accrued liabilities	67,713	15,290	3,357,623
Short-term debt	308,223	-	-
Due to other governmental units	-	-	-
Deferred revenue	-	141,831	-
Current portion of compensated absences	-	164,390	-
Current portion of long-term debt	215,722	-	403,728
Total current liabilities	621,596	595,058	5,457,690
Noncurrent liabilities			
Advance from other governmental units	-	-	-
Noncurrent portion of compensated absences	-	46,367	-
Noncurrent portion of long-term debt	362,422	-	4,350,604
Other noncurrent liabilities	-	-	350,000
Total noncurrent liabilities	362,422	46,367	4,700,604
TOTAL LIABILITIES	984,018	641,425	10,158,294
NET ASSETS			
Invested in capital assets, net of related debt	27,955,955	14,167	15,214,719
Restricted for:			
Specific purposes	-	-	1,533,687
Debt service	-	-	-
Unrestricted	951,694	863,516	19,724,817
TOTAL NET ASSETS	\$ 28,907,649	\$ 877,683	\$ 36,473,223

See accompanying notes to financial statements.

Drainage Districts	Board of Public Works	Housing Commission	Economic Development Corporation	Total Component Units
\$ 706,370	\$ 940,212	\$ 63,392	\$ -	\$ 7,429,366
5,000	45,716	-	-	2,925,609
-	-	-	-	4,867,988
842,778	5,753,111	7,317	-	14,934,593
4,138	-	-	-	233,590
27,153	-	-	-	2,053,851
-	-	-	-	2,222,085
1,585,439	6,739,039	70,709	-0-	34,667,082
-	-	-	-	2,675,363
-	-	-	-	316,331
-	1,096,843	-	-	6,963,251
1,604,034	11,503,601	-	-	55,463,495
-	-	-	-	556,435
1,604,034	12,600,444	-0-	-0-	65,974,875
3,189,473	19,339,483	70,709	-0-	100,641,957
8,749	10,328	-	-	1,899,542
-	1,929	-	-	121,288
13,498	27,938	-	-	3,482,062
43,250	-	-	-	351,473
109,000	-	-	-	109,000
-	-	-	-	141,831
-	-	-	-	164,390
120,930	235,000	-	-	975,380
295,427	275,195	-0-	-0-	7,244,966
-	35,000	-	-	35,000
-	-	-	-	46,367
254,583	4,263,485	-	-	9,231,094
-	-	-	-	350,000
254,583	4,298,485	-0-	-0-	9,662,461
550,010	4,573,680	-0-	-0-	16,907,427
1,185,271	12,600,444	-	-	56,970,556
-	-	-	-	1,533,687
334,943	-	-	-	334,943
1,119,249	2,165,359	70,709	-	24,895,344
\$ 2,639,463	\$ 14,765,803	\$ 70,709	\$ -0-	\$ 83,734,530

Branch County, Michigan

Component Units

STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions			Governmental Activities	Business-type Activities	Total
Governmental activities:								
Road Commission	\$ 6,686,074	\$ 1,756,579	\$ 5,316,761	\$ 397,677	\$ 784,943	\$ -	\$ -	\$ 784,943
Branch-Hillsdale-St. Joseph Community Health Agency	6,959,878	880,357	5,039,117	-	(1,040,404)	-	-	(1,040,404)
Drainage Districts	740,237	-	-	972,987	232,750	-	-	232,750
Board of Public Works	217,036	-	-	14,986	(202,050)	-	-	(202,050)
Housing Commission	218,551	-	247,680	-	29,129	-	-	29,129
Economic Development Corporation	15,450	-	15,450	-	-	-	-	-0-
Total governmental activities	14,837,226	2,636,936	10,619,008	1,385,650	(195,632)	-0-	-0-	(195,632)
Business-type activities:								
Community Health Center	58,433,623	58,370,311	140,269	-	-	-	76,957	76,957
Board of Public Works	813,507	570,904	-	-	-	-	(242,603)	(242,603)
Total business-type activities	59,247,130	58,941,215	140,269	-0-	-0-	(165,646)	(165,646)	(165,646)
Total component units	\$ 74,084,356	\$ 61,578,151	\$ 10,759,277	\$ 1,385,650	(195,632)	(165,646)	(361,278)	
General revenues:								
Investment earnings					99,999	689,273		789,272
County appropriations					965,646	-		965,646
Cigarette tax					56,687	-		56,687
Miscellaneous					6,609	449,788		456,397
Special item - loss on disposal of assets					(3,742)	-		(3,742)
Total general revenues					1,125,199	1,139,061		2,264,260
CHANGE IN NET ASSETS					929,567	973,415		1,902,982
Restated net assets, beginning of year					33,038,773	48,792,775		81,831,548
Net assets, end of year					\$ 33,968,340	\$ 49,766,190		\$ 83,734,530

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County of Branch, Michigan was incorporated in 1829, and covers an area of approximately 528 square miles with the County seat located in the City of Coldwater. The County operates under an elected Board of Commissioners and provides services to its more than 41,500 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

The financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to County governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County does not apply the Financial Accounting Standards Board's Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989. The County's more significant accounting policies are described below.

1. Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing* No. 5, these financial statements present the financial activities of Branch County (primary government) and its component units. The component units described in Sections 2, 3, and 4 below should be included in the County's reporting entity because of the significance of their operational or financial relationship with the County. Blended component units, although legally separate entities, are in substance part of the County's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County.

2. Blended Component Units

The Branch County Building Authority is governed by a four (4) member Board appointed by the County Board of Commissioners. Although it is legally separate from the County, the Branch County Building Authority is reported as if it were part of the (blended) primary government because its sole purpose is to finance and construct the County's public buildings.

3. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, Branch County remains financially accountable for these entities, or the nature and significance of the relationship between these entities and Branch County is such that exclusion of these entities would render the financial statements misleading or incomplete.

The Branch County Road Commission maintains local, state, and federal trunklines within Branch County. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local governmental units within the County. The three (3) member Board of Road Commissioners are appointed by the Branch County Board of Commissioners. The Road Commission is financially accountable to the County due to all general long-term debt issuances excluding capital lease purchase agreements require County authorization. This component unit is audited individually and the financial statements of the Branch County Road Commission may be obtained from the administrative office of the Road Commission located at 23 E. Garfield, Coldwater, MI 49036, or from the Branch County Clerk's Office located within the County Government Complex.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Units - continued

The Branch County Board of Public Works (BPW) is a seven (7) member Board comprised of the Drain Commissioner and six (6) members appointed by the County Board of Commissioners. The BPW Board establishes policy and reviews operations of the BPW for the County Board of Commissioners. The BPW can acquire, improve, operate, and maintain water and sewage disposal systems for local units of government and has the responsibility of administering the various local unit public works construction projects and the associated debt service funds under the provision of Act 185 of the Public Acts of 1957. The Board of Public Works is financially accountable to the County because all general obligation bond issuances require County authorization and are backed by the full faith and credit of the County.

The Branch County Drainage Districts come under the jurisdiction of the Branch County Drain Commissioner. This includes planning, developing, and maintaining surface water drainage systems. A complete file of finance, construction, and maintenance is maintained for each of the drains. The Drain Commissioner has authority to spend up to \$2,500 per mile on drain maintenance and may borrow up to \$300,000 from any source to provide for maintenance of a drain without Board of Commissioner approval and without going through the Local Audit and Finance division, State of Michigan. The Drain Commissioner has authority to levy special assessments on properties benefiting from maintenance. The Drainage Districts are financially accountable to the County because bond issuances greater than \$300,000 require County authorization and are backed by the full faith and credit of the County.

The Community Health Center (Hospital) was established by the County Board of Commissioners pursuant to provisions of Public Act 230, 1987. The corporation is managed by a nine (9) member Board of Trustees appointed by the County Board of Commissioners. Trustees can be removed by a majority vote of the County Board of Commissioners. The Board of Trustees may not sell, transfer, mortgage, or encumber any real estate without approval by the County Board of Commissioners. County Board of Commissioner approval is required for single capital expenditures in excess of \$500,000; incurrence of long-term indebtedness or refinancing of short-term indebtedness; sale, lease, transfer, exchange or other disposition of non-real estate assets in excess of \$1,000,000; and contracts with a hospital management corporation and others. The Hospital provides a short-term acute-care facility offering in-patient and outpatient health care services primarily to citizens of Branch County. This Component Unit is audited individually and complete financial statements of the Hospital may be obtained from the administrative office of the Hospital located at 274 E. Chicago Street, Coldwater, MI 49036, or from the Branch County Clerk's Office located within the County Government Complex.

The Economic Development Corporation (EDC), which was established pursuant to the provisions of Public Act 338 of 1974, as amended, is governed by a nine (9) person Board of Directors appointed by the County Board of Commissioners. The EDC may not issue debt without the County's approval. The Economic Development Corporation had no assets or liabilities as of December 31, 2006

The Branch County Housing Commission was established in 1913, pursuant to the county road law (MCL 224.1). The Housing Commission is administered by a three (3) member Board appointed by the Branch County Board of Commissioners. Its sole purpose is to rehabilitate and make safe inhabited dwellings existing in the County of Branch. The Branch County Board of Commissioners approves all grants received by the Housing Commission.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Joint Venture

The Branch-Hillsdale-St. Joseph Community Health Agency is a joint venture between Branch, Hillsdale, and St. Joseph Counties, and was established to provide public health services. The Community Health Agency Board has representation and provides services to Branch, Hillsdale, and St. Joseph Counties. Each County provides annual appropriations and passes through the statutory amounts of cigarette tax funding to subsidize operations. The current funding formula approved by the District Health Board requires Branch, Hillsdale, and St. Joseph Counties to provide 30, 30, and 40 percent, respectively. In addition, the treasury function for the District Health Department rests with the Branch County Treasurer. For this reason, the Community Health Agency is discretely presented in the Branch County financial statements. This component unit is audited individually and financial statements are issued under separate cover. The Branch-Hillsdale-St. Joseph Community Health Agency activities are reported on a fiscal year-end of September 30, 2006.

The financial statements of the Community Health Agency maybe obtained from the administrative office of the Agency located at 570 N. Marshall Road, Coldwater, Michigan 49036.

5. Related Organizations

Branch County in conjunction with the City of Coldwater entered into an agreement to create the Branch District Library. The District is a legally separate organization established to provide library services to residents of Branch County. On August 1991, voters approved a special mileage to fund the District Library.

The District consists of the entire geographic area of Branch County. It is governed by a seven (7) member Board; two (2) appointed by the City and five (5) appointed by the County. The County's accountability does not extend beyond this representation and making these appointments. The Board is empowered to propose and levy upon approval of the electors a tax for support of the District Library. It may also borrow money and issue bonds pursuant to the District Library Financing Act 265 of 1988. The District Library indemnifies and holds harmless the participating municipalities from all claims and liabilities. The County does levy a tax for the District; however, the County does not hold title to any of the District's assets, nor does it have rights to any surpluses or responsibility to finance any deficits of the District.

Branch County, in conjunction with four (4) other Counties, has entered into an agreement that created the Region Eight Substance Abuse Agency. This organization's Board is composed solely of the Kalamazoo County Board of Commissioners who handles all oversight functions of the Agency. The County's financial responsibility is to pass through 50% of the Convention and Tourism revenues received to the Commission. For the year ended December 31, 2006, the County passed through \$65,178.

The Branch Area Transit Authority (BATA) was established as a legally separate organization pursuant to Public Act 196 of 1986. The incorporating subdivisions include the City of Coldwater, Villages of Quincy, Sherwood and Union City, and Branch County.

The Authority is governed by an eight (8) person Board of Directors, three (3) selected by Branch County, two (2) by the City of Coldwater, and one (1) each by each of the Villages within the County. The County's accountability does not extend beyond this representation and making these appointments. The Board maintains its own accounting system; may employ a manager or executive director; adopt rules, regulations, and policies governing employees, property, and facilities; prepares an annual financial report; and adopts by-laws, policies, and procedures deemed necessary for conduct of business. The Authority is financed through grants from Federal and State government, fees from riders, contract users, contributions from governmental entities and other. The Authority currently receives a voter approved tax levy. The County does levy a tax for the Authority; however, the county does not hold title to any of the Authority's assets, nor does it have rights to any surpluses or responsibility to finance any deficits of the Authority.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Jointly Governed Organizations

Branch County, in conjunction with five (5) other Counties, has entered into an agreement that created the Southcentral Michigan Planning Commission. This organization's Board is composed of 12 members, of which one (1) is appointed by Branch County. The County's financial responsibility is to contribute a pro rata share of "local match" funds based on the proportion of State equalized valuation. For the year ended December 31, 2006, the County's contribution to the Commission was \$0.

Branch County, in conjunction with two (2) other Counties, has entered into a Joint Workforce Development Agreement for purposes of detailing and designating functions and responsibilities related to administration of job training and workforce development programs. Another agreement was also entered into to establish the Chief Elected Officials Board (CEOB), for which Branch County appoints two (2) of the seven (7) members, and also the Workforce Development Board (WDB), who are appointed by the CEOB.

These agreements also designate the Calhoun County Intermediate School District as "grant recipient" and "administrative entity" for operation of these programs. The District receives all related funding from State and Federal grants and, as a result, the County has no financial responsibility. The District is also fully responsible and indemnifies the County from potential liability for disallowed costs.

7. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the County's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the County are:

- a. The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Revenue Sharing Reserve Fund was established in 2004 to account for the shift of State Revenue Sharing dollars from State to local funding.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

- c. The Commission on Aging Fund accounts for the money used for planning and coordinating services for senior citizens.
- d. The Emergency Services Fund is used to account for expenditures incurred related to emergency services that are financed primarily through property taxes, state and federal grants, and user charges.
- e. The Jail Millage Fund is used to account for financial resources generated through a tax levy for the purpose of operating, renovating, equipping and furnishing the jail and law enforcement facility.
- f. The Medical Care Facility Fund is used to report activities related to providing long-term care services to County residents. These activities are financed primarily by user charges (Medicaid, Medicare, private, etc.).
- g. The Delinquent Tax Revolving Fund accounts for money advanced by the County to other local taxing units and various county funds to pay for their delinquent real property taxes. Revenues are generated by the collection of the delinquent real property taxes, penalties, and interest.

8. Measurement Focus

The government-wide, proprietary, and the pension fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for agency fiduciary funds since assets equal liabilities.

9. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Basis of Accounting - continued

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

10. Cash and Cash Equivalents

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the County's investments. Cash equivalents consist of temporary investments in certificates of deposit, money markets, and investment trust funds with an original maturity of 90 days or less. The investment trust funds have the general characteristics of demand deposit accounts in that the County may deposit and withdraw additional cash at any time without prior notice or penalty.

11. Investments

Investments are reported at cost, which approximates fair value, except for the Pension securities, which are reported at fair value. Investments consist of Pension Fund securities, certificates of deposit, municipal bonds, commercial paper, and U.S. Government Securities with an original maturity of over 90 days.

12. Receivables

Receivables consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

13. Inventories

The cost of inventory items in the primary government governmental funds is recorded as an expenditure at the time of purchase.

Inventories in the Plat Books (Special Revenue) Fund consist of plat books, Revolving Drain Equipment (Internal Service) Fund consist of materials and drain tiles, and Regular Drain (Component Unit Capital Project) Fund consists of materials and culvert. These items are valued at cost on a first-in/first-out basis.

Inventory in the Road Commission (component unit) consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Restricted Assets

Certain revenues and resources in the proprietary fund types are classified as restricted assets on the balance sheet because their use is limited. The restricted assets of the County reported in the Medical Care Facility Fund represent accumulated funds required to be used for capital acquisitions by action of the Department of Human Services Board, and patient trust deposits. The Community Health Center (component unit) holds restricted investments that were restricted by the donor for specific purposes.

15. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS - DRAINAGE DISTRICTS AND BOARD OF PUBLIC WORKS

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	5 - 50 years
Equipment and furniture	3 - 20 years
Vehicles	3 - 5 years
Drain infrastructure	40 years
Sewer systems	40 - 50 years

ROAD COMMISSION - COMPONENT UNIT

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items), are reported in the government-wide financial statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Branch County Road Commission as assets with an initial individual cost of more than \$1,000 and with an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**15. Capital Assets - continued****ROAD COMMISSION - COMPONENT UNIT - CONTINUED**

Depreciation is recorded over the estimated useful lives (ranging from five to forty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings and improvements	40 years
Equipment	5 - 10 years
Infrastructure	8 - 50 years

BRANCH-HILLSDALE-ST. JOSEPH COMMUNITY HEALTH AGENCY - COMPONENT UNIT

Capital assets include equipment and land improvements and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$1,000 or more, with estimated useful lives of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	7 years
Equipment	4 - 10 years

The Agency has no assets that would be classified as infrastructure assets.

COMMUNITY HEALTH CENTER - COMPONENT UNIT

Property and equipment are recorded at cost. Donations of property and equipment are recorded at fair market value at the date of donation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Land and improvements	3 - 25 years
Buildings and improvements	10 - 40 years
Furniture, fixtures, and equipment	6 - 20 years

16. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

17. Advances to Other Governmental Units

Long-term advances from the primary government to component units are made to finance new activities during their initial operations and to finance capital acquisitions. The applicable fund balance is reserved in the fund financial statements for such advances to reflect the amount of fund balance not currently available for expenditure.

18. Accrued Compensated Absences

In accordance with the County personnel policies and/or contracts negotiated with the various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested vacation and sick leave earned as of December 31, 2006, including related payroll taxes, is recorded in the government-wide financial statements.

19. Deferred Revenue

Deferred revenue consists of amounts related to long-term special assessment tax receivables recorded at the fund level that are not available to finance current period expenditures and are therefore deferred.

20. Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

21. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the Fund financial statements. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The County employs the following procedures in establishing budgets:

- a. Prior to August 1, the County Finance Committee prepares and submits their proposed operating budgets for the calendar year commencing the following January 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is held to obtain taxpayers' comments.
- c. Prior to December 31, the budgets are legally enacted through passage of an annual budget resolution.
- d. The budgets are legally adopted at the activity level for the General Fund and the fund level for the Special Revenue funds. Budgetary transfers between funds, amendments to total fund budgets or salary, fringe benefits, contracts, and capital outlay lines and transfers of greater than \$10,000 are not permitted without Board approval. For control purposes, all funds' budgets are maintained at the activity and account level.
- e. Budgets for certain Capital Projects Funds are made on a project basis spanning more than one year.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

21. Budgets and Budgetary Accounting - continued

- f. The County does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. All unexpended appropriations lapse at year-end.
- g. Budgeted amounts are reported as originally adopted or as amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations that were adopted.

22. Federal Programs

Federal Programs are accounted for in the funds to which the programs pertain. The County has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

23. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The County utilizes various pooled cash accounts and investments for approximately forty (40) funds. The County's pooled cash and investments consist of a common checking account, money markets, savings, certificates of deposit, commercial paper, banker's acceptances, and investment trust funds.

The County's pooled cash and investments are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds (except for the Delinquent Tax Revolving Funds), Internal Service Fund, Trust and Agency Funds, and Component Unit Funds. Each fund's portion of these pooled accounts is included in the cash, cash equivalents, and investments captions on the combined balance sheet and statement of net assets.

The other funds of the County utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit and investment trust funds are separately held by several of the County's funds.

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.

Branch County, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits, and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the federal loan mortgage corporation, federal national mortgage association, or government national mortgage association.

Deposits

As of December 31, 2006, the carrying amounts and bank balance for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$(448,776)	\$ 686,458
Certificates of deposit	<u>4,750,288</u>	<u>4,757,094</u>
TOTAL PRIMARY GOVERNMENT	4,301,512	5,443,552
COMPONENT UNITS		
Checking and savings	8,872,038	9,499,884
Certificates of deposit	<u>513,987</u>	<u>514,354</u>
TOTAL COMPONENT UNITS	9,386,025	10,014,238
FIDUCIARY FUNDS		
Checking	<u>1,414,122</u>	<u>1,468,894</u>
TOTAL REPORTING ENTITY	<u>\$15,101,659</u>	<u>\$16,926,684</u>

Deposits of the County are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the County. As of December 31, 2006, the primary government and component unit accounts were insured by the FDIC or FSLIC for \$400,004 and the amount of \$16,526,680 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Branch County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

As of December 31, 2006, the market values, which are the carrying values for each investment, are as follows:

Investments

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Standard & Poor's Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Federal Home Loan Bank	\$ 2,898,255	\$ 2,878,771	AAA	470 days
Federal National Mortgage Association	400,000	396,189	AAA	245 days
Federal Home Loan Mortgage Corporation	775,000	770,316	AAA	548 days
Federal Farm Credit Banks	450,000	449,640	AAA	246 days
MBIA - MI Class	212,999	213,927	Not Rated	99 days
Municipal bonds	34,000	34,000	SP-1+	425 days
Uncategorized pooled investment funds	<u>6,678,050</u>	<u>6,720,369</u>	Not Rated	43 days
Total primary government	11,448,304	11,463,212		
COMPONENT UNITS				
Federal Home Loan Bank	6,744	6,686	AAA	470 days
U.S. Treasury obligations	2,242,135	2,048,146	AAA	1-5 years
U.S. agencies obligations	5,231,519	5,231,519	AAA	less than 1 year
Uncategorized pooled investment funds	<u>1,341,055</u>	<u>1,341,601</u>	Not rated	43 days
Total component units	<u>8,821,453</u>	<u>8,627,952</u>		
TOTAL REPORTING ENTITY	<u>\$20,269,757</u>	<u>\$20,091,164</u>		

The investments in commercial paper are insured or registered, with securities held by National City, Fifth Third, Huntington Capital Corporation, Multi-Bank Securities, McDonald Investment, Inc., UBS Financial Services, and Smith-Barney-Division of Citigroup. The maximum insurance for investments with Smith-Barney-Division of Citigroup is provided by the Securities Investor Protection Act \$500,000; UBS Financial Services \$1,000,000; and Securities Investor Protection Corporation \$500,000. The maximum insurance for investments with NatCity Investments, Inc. is provided by the Securities Investor Protection Corporation \$500,000; and First Clearing - Safekeeping in the amount of \$99,500,000. The investments in GNMA's are not insured but are backed by the full faith and credit of the Federal Government. Investments in Municipal Securities other than GNMA are sponsored by agencies of the Federal Government, but are not insured or backed by the full faith and credit of the Federal Government. The maximum insurance for investments with Fifth Third is provided by Fifth Third Investment Services, Inc. in the amount of \$99,500,000; and the Securities Investor Protection Corporation \$500,000. Huntington Capital Corporation, Automatic Data Processing, Inc., and McDonald Investments, Inc. are also protected by the Securities Investor Protection Corporation in the amount of \$500,000.

The County has investments purchased for the County employee's Pension Trust Fund through John Hancock Insurance Company, and with one (1) bank and three (3) stockbrokerage companies for the other various investment types. Michigan Compiled Law, Section 38.1121, authorizes the County to invest pension assets in a wide variety of investments including: stocks, bonds, certificates of deposit, real estate, annuity contracts, obligations of a specified nature, and real or personal property. Specific limitations apply to the various investment types. As of December 31, 2006, the market value, which is the carrying amount of the pension trust plans assets, is \$32,749,614. The pension trust fund assets include uninsured and unregistered investments for which the securities are held, by the insurance carrier's trust departments but not in the County's name.

Branch County, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2006, rating information on the County's investments is presented above.

Interest rate risk

The County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio in a manner to attain a market rate of return throughout the budgetary and economic cycles while preserving and protecting capital.

Concentration of credit risk

The County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio to prevent over concentration of assets in a specific maturity, individual financial institution, or specific class of securities.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet and statement of net assets based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2006:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 4,376,270	\$10,104,729	\$ 1,414,122	\$15,895,121
Cash and cash equivalents - restricted	1,101,555	-	-	1,101,555
Investments	8,658,800	3,241,940	32,749,614	44,650,354
Investments - restricted	<u>1,618,348</u>	<u>4,867,988</u>	<u>-</u>	<u>6,486,336</u>
	<u>\$15,754,973</u>	<u>\$18,214,657</u>	<u>\$34,163,736</u>	<u>\$68,133,366</u>

The primary government and component unit cash and cash equivalents captions in the basic financial statements include \$5,157 and \$7,179 in imprest cash, respectively. The Branch-Hillsdale-St. Joseph Community Health Agency portion of pooled cash and cash equivalents presented above are as of December 31, 2006. However, the financial statements of the Branch-Hillsdale-St. Joseph Community Health Agency have been presented as of September 30, 2006, which results in a timing difference of \$281,487 for the component units.

NOTE C: POOLING OF CASH AND INVESTMENTS AND CASH OVERDRAFT

The County utilizes pooled cash accounts for various funds. Cash overdrafts of individual funds as of December 31, 2006, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
General Fund	\$(3,665,362)	\$ 1,348,005	\$(2,317,357)

Branch County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE C: POOLING OF CASH AND INVESTMENTS AND CASH OVERDRAFT - CONTINUED

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT - CONTINUED			
Special Revenue Funds			
Friend of the Court	\$(107,931)	\$ -	\$(107,931)
Juvenile Day Care Program	(12,765)	-	(12,765)
Child Care - DHS	(14,275)	-	(14,275)
Total reporting entity	<u>\$(3,800,333)</u>	<u>\$ 1,348,005</u>	<u>\$(2,452,328)</u>

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables related to the primary government at December 31, 2006:

Due to Commission on Aging Fund from:	
Nonmajor governmental funds	<u>\$ 5,199</u>
Due to component unit funds from:	
Other component unit funds	<u>\$ 172,683</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: ADVANCES RECEIVABLE AND PAYABLE

The following schedule details advances receivable and payable related to the primary government at December 31, 2006:

Advance to internal service fund from:	
General Fund	<u>\$ 10,000</u>

The advance to the internal service fund was to finance major vehicle repairs.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and component units have been eliminated.

Transfer to General Fund from:	
Revenue Sharing Reserve Fund	\$ 779,515
Jail Millage Fund	558,347
Nonmajor governmental funds	63,413
Delinquent Tax Revolving Fund	<u>662,050</u>
	<u>\$ 2,063,325</u>

Branch County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE F: INTERFUND TRANSFERS - CONTINUED

Transfer to Emergency Services Fund from:	
General Fund	<u>\$ 33,309</u>
Transfer to nonmajor governmental funds from:	
General Fund	\$ 1,386,913
Nonmajor governmental funds	<u>182,851</u>
	<u>\$ 1,569,764</u>
Transfer to component unit funds from:	
Other component units	<u>\$ 100,000</u>

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

Primary Government

	<u>Balance</u> <u>Jan. 1, 2006</u>	<u>Additions/</u> <u>Reclassifications</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>Dec. 31, 2006</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 1,050,627	\$ 119,000	\$(501)	\$ 1,169,126
Capital assets being depreciated:				
Land improvements	3,236,925	978,094	-	4,215,019
Buildings and additions	20,000,154	15,206	-	20,015,360
Equipment and furniture	5,803,712	188,675	(144,401)	5,847,986
Vehicles	<u>924,254</u>	<u>214,732</u>	<u>(126,597)</u>	<u>1,012,389</u>
Subtotal	29,965,045	1,396,707	(270,998)	31,090,754
Less accumulated depreciation for:				
Land improvements	(480,425)	(200,755)	-	(681,180)
Buildings and additions	(7,530,482)	(568,506)	-	(8,098,988)
Equipment and furniture	(2,227,867)	(417,113)	57,225	(2,587,755)
Vehicles	<u>(471,966)</u>	<u>(90,065)</u>	<u>80,813</u>	<u>(481,218)</u>
Subtotal	<u>(10,710,740)</u>	<u>(1,276,439)</u>	<u>138,038</u>	<u>(11,849,141)</u>
Net capital assets being depreciated	<u>19,254,305</u>	<u>120,268</u>	<u>(132,960)</u>	<u>19,241,613</u>
Capital assets, net	<u>\$ 20,304,932</u>	<u>\$ 239,268</u>	<u>\$(133,461)</u>	<u>\$ 20,410,739</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 348,555
Public safety	306,352
Public works	216,905
Health and welfare	199,090
Community and economic development	148,996
Recreation and cultural	<u>56,541</u>
Total depreciation expense	<u>\$ 1,276,439</u>

Branch County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance Jan. 1, 2006	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2006
Business-type activities				
Land and improvements	\$ 600,251	\$(3,475)	\$ -	\$ 596,776
Buildings	7,416,945	(46,434)	-	7,370,511
Equipment	<u>1,268,540</u>	<u>120,438</u>	<u>-</u>	<u>1,388,978</u>
Totals at historical cost	9,285,736	70,529	-	9,356,265
Less accumulated depreciation for:				
Land and improvements	(372,874)	4,490	-	(368,384)
Buildings	(3,822,571)	(255,562)	-	(4,078,133)
Equipment	<u>(919,837)</u>	<u>(82,963)</u>	<u>-</u>	<u>(1,002,800)</u>
Total accumulated depreciation	<u>(5,115,282)</u>	<u>(334,035)</u>	<u>-</u>	<u>(5,449,317)</u>
Capital assets, net	<u>\$ 4,170,454</u>	<u>\$(263,506)</u>	<u>\$ -0-</u>	<u>\$ 3,906,948</u>

Although none of the primary government's business-type activities' capital assets were disposed of during the year, certain capital assets and related accumulated depreciation were reclassified to a more appropriate category.

Component Units

Component Unit - Drainage Districts

Governmental Activities

Drains	\$ 3,607,485	\$ 144,671	\$(4,989)	\$ 3,747,167
Equipment	-	48,182	-	48,182
Vehicles	<u>-</u>	<u>18,449</u>	<u>-</u>	<u>18,449</u>
Total capital assets being depreciated	3,607,485	211,302	(4,989)	3,813,798
Less accumulated depreciation for:				
Drains	(2,015,310)	(162,333)	1,247	(2,176,396)
Equipment	-	(17,225)	-	(17,225)
Vehicles	<u>-</u>	<u>(16,143)</u>	<u>-</u>	<u>(16,143)</u>
Total accumulated depreciation	<u>(2,015,310)</u>	<u>(195,701)</u>	<u>1,247</u>	<u>(2,209,764)</u>
Capital assets, net	<u>\$ 1,592,175</u>	<u>\$ 15,601</u>	<u>\$(3,742)</u>	<u>\$ 1,604,034</u>

Component Unit - Board of Public Works

Capital assets not being depreciated

Land	\$ 1,096,843	\$ -	\$ -	\$ 1,096,843
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Capital assets being depreciated

Buildings	3,832,141	-	-	3,832,141
Equipment	706,069	-	-	706,069
Vehicles	20,684	-	-	20,684
Sewer	<u>10,937,340</u>	<u>-</u>	<u>-</u>	<u>10,937,340</u>
Subtotal	15,496,234	-0-	-0-	15,496,234

Branch County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G: CAPITAL ASSETS - CONTINUED**Component Units - continued**

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006
Component Unit - Board of Public Works - continued				
Less accumulated depreciation for:				
Buildings	\$(843,103)	\$(82,252)	\$ -	\$(925,355)
Equipment	(473,764)	(20,945)	-	(494,709)
Vehicles	(20,684)	-	-	(20,684)
Sewer	(2,329,057)	(222,828)	-	(2,551,885)
Subtotal	(3,666,608)	(326,025)	-0-	(3,992,633)
Net capital assets being depreciated	11,829,626	(326,025)	-0-	11,503,601
Capital assets, net	\$ 12,926,469	\$(326,025)	\$ -0-	\$ 12,600,444
Component Unit - Road Commission				
Capital assets not being depreciated				
Land and improvements	\$ 49,980	\$ -	\$ -	\$ 49,980
Land Improvements - infrastructure	3,197,890	82,895	-	3,280,785
Total capital assets not being depreciated	3,247,870	82,895	-0-	3,330,765
Capital assets being depreciated				
Depletable assets	626,798	-	-	626,798
Buildings	1,256,708	-	-	1,256,708
Equipment				
Road	6,567,413	554,871	(281,139)	6,841,145
Shop	229,660	-	-	229,660
Office	96,717	4,445	-	101,162
Engineers	12,555	1,104	-	13,659
Yard and Storage	819,800	-	-	819,800
Infrastructure	46,886,462	2,565,739	(71,441)	49,380,760
	56,496,113	3,126,159	(352,580)	59,269,692
Accumulated depreciation and depletion				
Depletable assets	(534,558)	(3,880)	-	(538,438)
Buildings	(882,382)	(37,939)	-	(920,321)
Equipment				
Road	(5,273,877)	(509,011)	259,068	(5,523,820)
Shop	(205,908)	(7,948)	-	(213,856)
Office	(72,617)	(8,035)	-	(80,652)
Engineers	(5,871)	(1,449)	-	(7,320)
Yard and Storage	(575,850)	(46,945)	-	(622,795)
Infrastructure	(24,528,440)	(1,997,206)	71,441	(26,454,205)
	(32,079,503)	(2,612,413)	330,509	(34,361,407)
Capital assets being depreciated, net	24,416,610	513,746	(22,071)	24,908,285
Total capital assets, net	\$ 27,664,480	\$ 596,641	\$(22,071)	\$ 28,239,050

Branch County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G: CAPITAL ASSETS - CONTINUED

Component Units - continued

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006
Component Unit - Community Health Center				
Capital assets not being depreciated				
Land	\$ 1,369,253	\$ -	\$ -	\$ 1,369,253
Construction in progress	<u>708,438</u>	<u>1,595,516</u>	<u>(2,212,499)</u>	<u>91,455</u>
Total capital assets not being depreciated	2,077,691	1,595,516	(2,212,499)	1,460,708
Capital assets being depreciated				
Land improvements	1,074,935	-	-	1,074,935
Building improvements	28,384,891	2,218,452	(30,000)	30,573,343
Furniture, fixtures, and equipment	<u>26,562,090</u>	<u>1,117,268</u>	<u>(10,274)</u>	<u>27,669,084</u>
	56,021,916	3,335,720	(40,274)	59,317,362
Less accumulated depreciation	<u>(38,290,656)</u>	<u>(2,549,895)</u>	<u>31,532</u>	<u>(40,809,019)</u>
Capital assets being depreciated, net	<u>17,731,260</u>	<u>785,825</u>	<u>(8,742)</u>	<u>18,508,343</u>
Total capital assets, net	<u>\$ 19,808,951</u>	<u>\$ 2,381,341</u>	<u>\$(2,221,241)</u>	<u>\$ 19,969,051</u>
	Balance Oct. 1, 2005	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Sept. 30, 2006
Component Unit - Branch-Hillsdale-St. Joseph Community Health Agency				
Equipment	\$ 135,142	\$ -	\$ -	\$ 135,142
Land Improvements	<u>22,723</u>	<u>-</u>	<u>-</u>	<u>22,723</u>
Totals at historical cost	157,865	-0-	-0-	157,865
Less accumulated depreciation for:				
Equipment	(129,124)	(1,301)	-	(130,425)
Land Improvements	<u>(13,168)</u>	<u>(105)</u>	<u>-</u>	<u>(13,273)</u>
Total accumulated depreciation	<u>(142,292)</u>	<u>(1,406)</u>	<u>-0-</u>	<u>(143,698)</u>
Capital assets, net	<u>\$ 15,373</u>	<u>\$(1,406)</u>	<u>\$ -0-</u>	<u>\$ 14,167</u>

NOTE H: SHORT-TERM DEBT - COMPONENT UNITS

The short-term debt of the County consists of various drain notes issued for purposes of financing costs in connection with various drainage district construction and maintenance projects.

The drain notes are reported in the Drainage Districts Component Unit Drain Construction (Capital Projects) Fund and are detailed as follows:

Branch County, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE H: SHORT-TERM DEBT - COMPONENT UNITS - CONTINUED

<u>Drain Note Number</u>	<u>Balance Dec. 31, 2006</u>
#06-37	\$ 2,500
#06-39	2,000
#06-41	5,000
#06-42	3,750
#06-44	5,000
#06-45	5,000
#06-46	<u>20,000</u>
	<u>\$ 43,250</u>

NOTE I: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the County for the year ended December 31, 2006:

	<u>Restated Balance Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2006</u>	<u>Amounts Due Within One Year</u>
PRIMARY GOVERNMENT					
Governmental Activities					
Direct County Obligations	\$ 9,810,000	\$ -	\$(735,000)	\$ 9,075,000	\$ 780,000
Capital leases	102,708	-	(50,136)	52,572	52,572
Compensated absences	<u>665,097</u>	<u>521,680</u>	<u>(490,300)</u>	<u>696,477</u>	<u>69,648</u>
	10,577,805	521,680	(1,275,436)	9,824,049	902,220
Business-type Activities					
Enterprise Fund					
Medical Care Facility					
Compensated absences	<u>391,913</u>	<u>174,475</u>	<u>(234,284)</u>	<u>332,104</u>	<u>181,885</u>
TOTAL PRIMARY GOVERNMENT	10,969,718	696,155	(1,509,720)	10,156,153	1,084,105
COMPONENT UNIT FUNDS					
Board of Public Works					
Sanitary sewer bonds	4,895,000	-	(265,000)	4,630,000	235,000
Drainage Districts					
Drain Notes	242,740	263,103	(130,330)	375,513	120,930
Community Health Center					
Hospital Bonds	5,137,526	-	(383,194)	4,754,332	403,728
Road Commission					
Installment lease purchase agreements	280,242	217,597	(214,744)	283,095	169,722
Compensated absences	323,901	-	(28,852)	295,049	46,000
Branch-Hillsdale-St. Joseph					
Community Health Agency					
Compensated absences	<u>193,915</u>	<u>16,842</u>	<u>-</u>	<u>210,757</u>	<u>164,390</u>
	11,073,324	497,542	(1,022,120)	10,548,746	1,139,770

Branch County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I: LONG-TERM DEBT - CONTINUED

	Restated Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006	Amounts Due Within One Year
COMPONENT UNIT FUNDS - CONTINUED					
Less deferred amounts:					
On refunding	\$ 140,283	\$ -	\$ 8,768	\$ 131,515	\$ 8,768
TOTAL COMPONENT UNITS	10,933,041	497,542	(1,013,352)	10,417,231	1,131,002
TOTAL REPORTING ENTITY	21,902,759	1,193,697	(2,523,072)	20,573,384	2,215,107

PRIMARY GOVERNMENT

Direct County Obligations - County Building Authority Bonds

The Branch County Board of Commissioners is party to long-term lease agreements for rental of the Hospital, Medical Care Facility, Courthouse, and FIA buildings from the Branch County Building Authority. The lease agreements stipulate that the annual rentals be paid by the County to the Building Authority in amounts sufficient to meet the annual principal and interest on bonds, which shall be pledged exclusively for that purpose. When all debt has been retired for the buildings, the rentals will cease, title to the buildings will be transferred to the County, and any cash balances remaining with the Building Authority will be returned to the County.

Bonds payable at December 31, 2006 are as follows:

\$2,550,000 Branch County Building Authority Bonds (FIA Project) - Series 1998A, dated April 1, 1998, due in annual installments ranging from \$125,000 to \$200,000 through September 1, 2018, with interest ranging from 4.600 to 4.625 percent, payable semi-annually.	\$ 1,660,000
\$2,000,000 Branch County Building Authority Bonds (Human Services) - Series 1999, dated December 1, 1999, due in an annual installment of \$100,000 through September 1, 2007, with interest of 5.30 percent, payable semi-annually.	100,000
\$4,000,000 Branch County Building Authority Bonds (Hospital) - Series 2001, dated March 1, 2001, due in annual installments ranging from \$240,000 to \$380,000 through September 1, 2016, with interest ranging from 4.375 to 4.5 percent, payable semi-annually.	3,040,000
\$995,000 Branch County Building Authority Bonds (Commission on Aging) - Series 2001 A, dated June 1, 2001, due in annual installments ranging from \$40,000 to \$75,000 through September 1, 2021, with interest ranging from 4.05 to 5.25 percent, payable semi-annually.	830,000
\$2,750,000 Branch County Building Authority Refunding Bonds - Series 2002, dated April 1, 2002, due in annual installments ranging from \$105,000 to \$320,000 through September 1, 2017, with interest ranging from 3.75 to 4.75 percent, payable semi-annually.	1,940,000
\$1,750,000 Branch County Building Authority Bonds (Courthouse) - Series 2002, dated August 1, 2002, due in annual installments ranging from \$65,000 to \$135,000 through September 1, 2022, with interest ranging from 3.00 to 4.75 percent, payable semi-annually.	1,505,000
	<u>\$ 9,075,000</u>

Branch County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Capital Leases

The County has entered into lease purchase agreements which qualify as capital leases for accounting purposes (title transfers to County) and therefore have been recorded at the present value of future minimum lease payments as of the date of inception. The following are additional details regarding the leases.

\$20,468 Branch County Parks Department capital lease payable, dated July 29, 2004, due in a final installment of \$5,314 on July 29, 2007 with interest of 8.5 percent, payable annually.	\$ 5,314
\$18,468 Branch County, County Complex Department capital lease payable, dated May 9, 2005, due in a final installment of \$6,151 on May 9, 2007 with interest of 5.30 percent, payable annually.	6,151
\$123,393 Branch County Sheriff Department capital lease payable, dated March 30, 2005, due in a final installment of \$41,107 on March 20, 2007 with interest of 4.3 percent, payable annually.	<u>41,107</u>
	<u>\$ 52,572</u>

Compensated Absences

In accordance with County personnel policies and/or contracts negotiated with various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$1,028,581 for vacation and sick, at December 31, 2006. Of this amount, \$332,104 has been accrued as a liability in the Medical Care Facility (Enterprise) Fund Balance Sheet. Of the remaining liability of \$696,477, \$69,648 has been recorded as a current liability and \$626,829 has been recorded as a noncurrent liability.

Advance Refunding - Prior

On April 1, 2002 the County defeased a portion of the 1999 Building Authority Bonds (Human Services) which are due and payable September 1, 2019. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The County issued Building Authority 2002 Refunding Bonds in the amount of \$2,750,000 to fund escrow amounts, pay the cost of issuance of the refunding bonds, and to pay the remaining balances of the 1990-1 Building Authority Bonds (Mental Health Building) and 1994 Building Authority Bonds (K.C.C. Project). Accordingly, the trust account assets and liabilities for the defeased bond are not included in the County's financial statements. At December 31, 2006, bonds due and payable September 1, 2019 for 1999 Building Authority Bonds (Human Services) in the amount of \$1,400,000 are considered defeased.

On April 2, 2001 the County defeased a portion of the 1998A Building Authority Bonds (FIA Project) which are due and payable September 1, 2018. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The County used remaining bond proceeds from the 1998A Building Authority Bonds (FIA Project) in the amount of \$201,879 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the County's financial statements. At December 31, 2006, bonds due and payable September 1, 2018 for the 1998A Building Authority Bonds (FIA Project) in the amount of \$190,000 are considered defeased.

Branch County, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE I: LONG-TERM DEBT - CONTINUED

COMPONENT UNIT - BOARD OF PUBLIC WORKS

Indirect County Obligations - Sanitary Sewer Bonds

The County has irrevocably pledged its full faith and credit as collateral for the following sanitary sewer system bonds. These projects are administered by the Branch County Board of Public Works for local municipalities. Payments by the municipalities to the County, in accordance with contractual agreements, along with assessments made against benefiting properties, provide the monies required to meet the principal and interest on the sewer system bonds.

Indirect County Obligations - Sanitary Sewer Bonds - continued

Bonds payable at December 31, 2006, for the Sanitary Sewer System construction projects are as follows:

\$5,190,000 Branch County Sanitary Sewer System No. 2 Refunding Bonds (Coldwater and Long Lake Extensions), Series 2004, dated February 1, 2004, due in annual installments ranging from \$205,000 to \$315,000 through May 1, 2022, with interest of 2.50 to 5.10 percent, payable semi-annually.	<u>\$ 4,630,000</u>
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Advance Refunding - Prior

On November 15, 1999, the County defeased \$610,000 of the outstanding Sanitary Sewer Disposal System No. 2 bonds, dated August 1, 1996, maturing May 1, 2006 through May 1, 2016, by establishing an irrevocable trust with U.S. Government Securities sufficient to meet the annual installment principal obligations of \$610,000, and associated semi-annual interest payments. The funds used to fund these escrow amounts were from excess bond proceeds remaining after completion of the related construction project. Accordingly, the trust account assets and liabilities for the defeased portion of the bond issue are not included in the County's financial statements. At December 31, 2006, bonds due and payable May 1, 2007 through May 1, 2016 in the amount of \$595,000 are considered defeased.

COMPONENT UNIT - DRAINAGE DISTRICTS

Drain Notes

The County has irrevocably pledged its full faith and credit as collateral for the following drain loans and notes. These projects are administered by the Branch County Drain Commission for various local drainage districts. The drain loans and notes were issued to finance the various Construction Funds for the purpose of paying costs in connection with various drainage district projects and are payable out of assessments to be made against the benefited properties.

Loan and notes payable at December 31, 2006, per respective Drain projects serviced from the Component Unit Funds are as follows:

Various drain notes due in various annual installments and interest rates through 2011.	<u>\$ 375,513</u>
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COMPONENT UNIT - BRANCH-HILLSDALE-ST. JOSEPH COMMUNITY HEALTH AGENCY

Employees of the Branch-Hillsdale-St. Joseph Community Health Agency are granted vacation and personal leave in varying amounts based on length of service. Upon termination of employment, employees are paid accumulated vacation at full current rate of pay to a maximum of 360 hours, and accumulated personal leave at full current rate of pay of hours accumulated up to a maximum of 30 hours.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I: LONG-TERM DEBT - CONTINUED**COMPONENT UNIT - BRANCH-HILLSDALE-ST. JOSEPH COMMUNITY HEALTH AGENCY - CONTINUED**

Accumulated vacation leave and personal pay represent a liability to the Agency, which is presented in a current and long term portion of the liability. For this reason, the total liability is reported in the government-wide financial statements represent a current liability of \$164,390 and noncurrent liability of \$46,367. Payments to employees for vacation leave and personal pay are recorded as expenditures when they are used and payments are actually made to the employees.

COMPONENT UNIT - COMMUNITY HEALTH CENTER

Hospital Revenue Bonds, Series 2001, issued through the Branch County Building Authority, bearing interest ranging from 4.375 to 4.500 percent. Annual principal payments range from \$240,000 in 2007 to \$380,000 in 2016. Collateralized by a lease agreement on the building and surrounding land with the Authority and the County of Branch. In turn, the County subleases the building and land to the Hospital under the same terms. The Hospital makes payment directly to the Authority. Hospital Revenue Bonds, Series 2005, issued in the amount of \$1,900,000, bear interest at LIBOR plus 2.25%, and are payable in monthly installments through November 1, 2015. Secured by net revenue and accounts receivable and the assets restricted under the bond indenture agreement. The indenture agreement requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a historical debt-service coverage ratio of at least 1.25 to 1.00, maintaining a ratio of funded debt plus net assets of no more than .50 and maintaining minimum days of cash on hand of 75 days.

\$ 4,754,332**COMPONENT UNIT - ROAD COMMISSION**Lease Purchase Agreements

The Road Commission entered into four purchase agreements for certain equipment secured by the related equipment. Payment terms are as follows:

	<u>Annual Payments</u>	<u>Interest Rates</u>	<u>Final Payment</u>
2003 - 4 trucks, 1 motor grader and asphalt plant refurbishment	\$102,714	3.5%	5/07
2007 - 3 Trucks	\$39,847 to \$78,976	3.8 - 5.25%	7/09

Accrued Sick and Vacation

After the first year of employment, employees can earn one week of vacation. Thereafter employees earn one additional day of vacation per year, until a limit of four weeks is reached. Vacation leave may be accumulated up to a maximum of one week over the annual allotment, as of the employee's anniversary date.

Sick leave is earned at the rate of 12 days per year; a maximum of 62.5 days may be accumulated.

Excess sick leave earned above 62.5 days is then converted into personal days. Personal days can be accumulated up to a maximum of 12 days and are paid off on the employee's anniversary date.

Vacation, sick, and personal pay is payable in full when employment ceases.

Branch County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the following Bonds, Notes, and Leases are as follows:

Year Ending December 31,	Primary Government							
	Direct County Obligations				Capital Leases			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 780,000	\$ 403,277	\$ 52,572	\$ 2,564				
2008	805,000	370,280	-	-				
2009	825,000	336,841	-	-				
2010	695,000	301,494	-	-				
2011	680,000	271,405	-	-				
2012-2016	3,925,000	872,971	-	-				
2017-2021	1,230,000	183,806	-	-				
2022	135,000	6,413	-	-				
	<u>\$ 9,075,000</u>	<u>\$ 2,746,487</u>	<u>\$ 52,572</u>	<u>\$ 2,564</u>				

Year Ending December 31,	Component Units							
	Drainage Districts Drain Notes		Board of Public Works Sanitary Sewer Bonds		Road Commission Installment Leases		Community Health Hospital/Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 120,930	\$ 8,267	\$ 235,000	\$ 163,800	\$ 169,722	\$ 11,968	\$ 403,728	\$ 222,921
2008	114,530	13,213	275,000	157,081	74,522	4,456	420,608	203,515
2009	66,453	6,645	300,000	148,800	38,851	636	443,700	183,268
2010	41,100	6,129	290,000	139,950	-	-	466,492	161,942
2011	32,500	6,924	315,000	130,284	-	-	489,550	139,468
2012-2016	-	-	1,505,000	492,578	-	-	2,530,254	324,544
2017-2021	-	-	1,505,000	204,356	-	-	-	-
2022	-	-	205,000	4,869	-	-	-	-
	<u>\$ 375,513</u>	<u>\$ 41,178</u>	<u>\$ 4,630,000</u>	<u>\$ 1,441,718</u>	<u>\$ 283,095</u>	<u>\$ 17,060</u>	<u>\$ 4,754,332</u>	<u>\$ 1,235,658</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE J: EMPLOYEE RETIREMENT SYSTEM**RETIREMENT SYSTEM - COUNTY GENERAL, ROAD COMMISSION, AND COMMUNITY HEALTH CENTER PLAN DESCRIPTION**

Branch County (primary government) and its component units (County Road Commission and the Community Health Center) contribute to the Branch County Pension Plan, which is a defined benefit, cost sharing, multiple employer retirement system covering substantially all of its employees. The plan is administered by Branch County, with investments purchased through John Hancock Insurance Company, one (1) bank and three (3) brokerage companies. To be eligible for the plan, an employee must be a regular full-time employee, have completed six (6) months of service, and make employee contributions. The County's contributions for the years ended December 31, 2005, 2004, and 2003 were based on the payroll for employees covered by the system as of December 31, 2004, 2003, and 2002. The covered payroll for 2004 was \$1,784,433; \$9,052,180; and \$6,269,282 for the County Road Commission, Community Health Center, and all other County employee groups, respectively. The covered payroll for 2003 was \$1,719,545; \$8,444,128; and \$6,082,283 for the County Road Commission, Community Health Center, and all other County employee groups, respectively. The covered payroll for 2002 was \$1,844,999; \$7,101,503; and \$7,247,607 for the County Road Commission, Community Health Center, and all other County employee groups, respectively. The total payroll for 2004 was \$2,054,785; \$23,455,829; and \$11,255,980 for the County Road Commission, Community Health Center, and all other County employee groups. The total payroll for 2003 was \$1,943,676; \$20,190,035; and \$11,343,200 for the County Road Commission, Community Health Center, and all other County employee groups, respectively. The total payroll for 2002 was \$1,984,564; \$16,194,109; and \$12,604,413 for the County Road Commission, Community Health Center, and all other County employee groups, respectively. The plan provides retirement benefits, as well as death and disability benefits in accordance with benefit provisions as adopted by the Branch County Board of Commissioners. Retirement benefits are based on service and compensation and vested after five (5) years of service. At December 31, 2004, membership consisted of 315 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 470 current active employees.

The obligation to contribute to and maintain the system for covered employees was established in the Branch County Pension Plan, as amended January 1, 1989, and requires a contribution from the employees of three (3) percent of the first \$4,800 of gross wages, plus five (5) percent of the remaining amount. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings. The actual employee contributions for the year ended December 31, 2004 were \$87,807; \$430,785; and \$348,249, these contributions representing 4.9, 4.8, and 5.6 percent of covered payroll for the County Road Commission, Community Health Center, and all other County employee groups, respectively.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (a/b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll
12/31/02	\$ 28,236,752	\$ 41,604,176	\$(13,367,424)	67.87 %	\$ 16,194,109	83 %
12/31/03	31,187,508	44,195,535	(13,008,027)	70.57 %	16,245,956	80 %
12/31/04	34,157,573	47,298,233	(13,140,660)	72.22 %	17,105,895	77 %

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual Required Contribution	Percentage Contributed	Net Pension (Obligation)/Benefit
2002	\$ 944,726	92 %	\$(74,958)
2003	1,119,640	100.6 %	7,464
2004	1,047,053	103.4 %	64,670

Branch County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE J: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

**RETIREMENT SYSTEM - COUNTY GENERAL, ROAD COMMISSION, AND COMMUNITY HEALTH CENTER
PLAN DESCRIPTION - CONTINUED**

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2004, the latest actuarial valuation, follows:

Actuarial cost method	Aggregate cost method
Amortization method	Level percent, closed
Remaining amortization period	*
Asset valuation method	*
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases attributable to inflation	4.5%
Cost of living adjustments	None

* Information not provided in actuarial valuation report

NOTE: The Aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

COMPONENT UNIT - BRANCH-HILLSDALE-ST. JOSEPH COMMUNITY HEALTH AGENCY

Plan Description

The Agency participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Agency. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Board of Public Health. The plan requires a contribution from the employees of three (3) percent of wages depending on the employee group covered. The Agency is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended September 30, 2006, the Agency's annual pension cost of \$187,606 for the plan was equal to the Agency's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an - percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation and (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five (5) year period.

Branch County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE J: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

COMPONENT UNIT - BRANCH-HILLSDALE-ST. JOSEPH COMMUNITY HEALTH AGENCY - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$ 7,609,451	\$ 8,162,790	\$ 8,662,574
Actuarial accrued liability (AAL) (entry age)	7,328,279	8,234,660	8,648,591
Unfunded (overfunded) AAL	(281,172)	(71,870)	(13,983)
Funded ratio	104 %	99 %	100 %
Covered payroll	2,441,083	2,552,172	2,421,635
UAAL as a percentage of covered payroll	0 %	3 %	0 %

	Year Ended September 30,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ 125,397	\$ 157,596	\$ 187,606
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE K: CONTINGENT LIABILITIES

The County participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The Single Audit of the Federal Programs and the periodic program compliance audits of many of the State programs have not yet been completed or final resolution has not been received. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

A substantial portion of the Medical Care Facility's total patient revenues are for services provided to Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan patients. Payments for these services are based upon allowable costs incurred and are subject to final audit by the intermediaries.

COMPONENT UNIT - COMMUNITY HEALTH CENTER

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Approximately 30% of the Hospital's workforce is covered by collective bargaining agreements. The Hospital could encounter difficulties in obtaining qualified employees in the future if these agreements are not renewed.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE L: ROAD COMMISSION FEDERAL GRANTS

Governmental and certain other entities which expend \$500,000 or more of direct federal dollars are subject to a single audit in accordance with the OMB Circular A-133. The Road Commission expended \$397,677 of federal/state dollars which were passed through and administered by the Michigan Department of Transportation. The passed through monies will be included in the State of Michigan's single audit.

NOTE M: RISK MANAGEMENT**PRIMARY GOVERNMENT**

The County is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately. The Authority administers a risk management fund providing Branch County with loss protection for general and auto liability, motor vehicle physical damage, and property. Membership of the Authority at December 31, 2006, was comprised of more than 280 units of government.

The administration of the Authority is directed by a nine (9) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the authority to impose sanctions or terminate membership. The County, by resolution of the County Board of Commissioners, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the County and the Authority.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Branch County with loss protection for general and auto liability, motor vehicle physical damage, and property damage. Under most circumstances the County's maximum loss per occurrence is limited as follows:

<u>Maximum Retention</u> <u>Type of Risk</u>	<u>Per Occurrence</u>
General and auto liability	\$ 75,000
Motor vehicle physical damage	15,000
Property coverage	1,000

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

Liability insurance claims are expenses as incurred. The liability is determined by the Michigan Municipal Risk Management Authority management based on an actuarial study performed using historical data and available insurance industry statistics. The liability includes a reserve for reported claims, and reported legal expenses as well as incurred but not reported claims.

The Authority has reserved fund balance to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that Branch County incurs a loss in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE M: RISK MANAGEMENT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

In addition, the Authority has accumulated resources to create and fund an internal Stop Loss Fund. The Stop Loss Fund was initiated to eliminate the need to purchase aggregate reinsurance for aggregate losses paid in excess of \$200,000, net of reinsurance recoveries for any one member in any one year. Aggregate paid losses in excess of \$200,000 net of reinsurance recoveries are paid entirely from the Internal Stop Loss Fund. If at any time the Stop Loss Fund is insufficient to fund Branch County's losses, the remaining liability shall become the responsibility of the Authority as a whole.

At December 31, 2006, the County had funds on deposit of \$101,299 with the Authority and reserves for reported claims of \$2,572.

The Maple Lawn Medical Facility carries commercial insurance for the risk of loss due to liability claims.

The County and the Maple Lawn Medical Care Facility also participate in a pool, the Michigan Counties Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The County has not been informed of any special assessments being required.

COMPONENT UNIT - ROAD COMMISSION

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for property, fleet, umbrella, errors and omissions, and dishonesty bond. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for workers' compensation insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

COMPONENT UNIT - BRANCH-HILLSDALE-ST. JOSEPH COMMUNITY HEALTH AGENCY

The Agency carries commercial insurance for the risk of loss due to workers' compensation claims.

The Agency also participates in a pool, the Michigan Municipal Risk Management Authority, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Agency has not been informed of any special assessments being required.

COMPONENT UNIT - COMMUNITY HEALTH CENTER

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchase for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE M: RISK MANAGEMENT - CONTINUED**COMPONENT UNIT - COMMUNITY HEALTH CENTER - CONTINUED****Medical and Dental**

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual individual amount of \$125,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the individual annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2006 and 2005 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Estimated liability - beginning of year	\$ 252,754	\$ 231,603
Claims incurred, including changes in estimates for claims incurred in prior years	4,924,734	5,895,145
Claims and expenses paid	<u>(4,906,791)</u>	<u>(5,873,994)</u>
Estimated liability - end of year	<u>\$ 270,697</u>	<u>\$ 252,754</u>

Malpractice

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis, under which the Hospital is responsible for the first \$100,000 per occurrence and \$200,000 in the aggregate of medical malpractice risk. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based on the Hospital's claims experience, an accrual has been made as summarized below:

	<u>2006</u>	<u>2005</u>
Balance - beginning of year	\$ 183,014	\$ 153,615
Claims incurred, including changes in estimates for claims incurred in prior years	155,548	65,996
Claims and expenses paid	<u>(122,573)</u>	<u>(36,597)</u>
Balance - end of year	<u>\$ 215,989</u>	<u>\$ 183,014</u>

It is reasonably possible that this estimate could change materially in the near term.

NOTE N: PROPERTY TAXES AND TAXES RECEIVABLE

The County property tax is levied each December 1 and July 1 on the taxable valuation of property located in the County as of the preceding December 31.

Branch County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE N: PROPERTY TAXES AND TAXES RECEIVABLE - CONTINUED

Beginning with the 2004 tax levy the State has mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 to 2006 ad valorem operating tax is being recognized. The purpose of the fund is to accumulate reserves of the County's own local funds from which an amount similar to Revenue Sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's tax levy will be shifting over the next three years from winter to summer.

The County's Winter 2005 and Summer 2006 ad valorem taxes were levied and collectible on December 1, 2005 and July 1, 2006, respectively. It is the County's policy to recognize revenues from the tax levy in the year when the proceeds of the levy are budgeted and made available for the financing of County operations. As a result, the County's Winter 2005 and Summer 2006 tax levies have been recognized as revenue in the current fiscal year.

The 2006 taxable value of Branch County amounted to \$1,176,543,411 on which ad valorem taxes levied consisted of 4.7562 mills for general operations, 0.7333 mills for Commission on Aging, 0.7500 mills for Emergency 911 services, 0.4852 mills for the Jail, and 0.1000 mills for Veteran's relief.

The property taxes levied at December 1 are accrued as current taxes receivable with the appropriate deferral and are budgeted as revenue in the subsequent year in the General Fund; Jail Millage, Emergency Services, Commission on Aging, and Soldiers and Sailors (Special Revenue) Funds. Taxes are collected by the various tax collecting units from the date of the levy to December 31, and remitted to the County through the Trust and Agency Fund for distribution to the General and Special Revenue Funds. These amounts have been reported as undistributed collections in the Trust and Agency Fund.

Taxes receivable recorded in the respective funds at December 31, 2006 are as follows:

Taxes Receivable	Special Revenue						Enterprise Delinquent Tax Revolving Fund	Total
	General	Revenue Sharing Reserve	Soldiers & Sailors	Jail Millage	Emergency Services	Commission on Aging		
Current	\$ 623,063	\$ 1,455,997	\$ 117,654	\$ 570,859	\$ 882,408	\$ 862,759	\$ -	\$ 4,512,740
Delinquent	-	-	-	-	-	-	1,229,553	1,229,553
	<u>\$ 623,063</u>	<u>\$ 1,455,997</u>	<u>\$ 117,654</u>	<u>\$ 570,859</u>	<u>\$ 882,408</u>	<u>\$ 862,759</u>	<u>\$ 1,229,553</u>	<u>\$ 5,742,293</u>

The delinquent portion of the taxes receivable represents unpaid real property taxes in the Delinquent Tax Revolving Fund.

By agreement with the various taxing authorities, the County purchases at face value the real property taxes returned delinquent each March 1 (or September 14 for the summer levy of Villages), and records a corresponding delinquent taxes receivable. Real property taxes not ultimately collected are charged back to the General, Special Revenue, and Debt Service Funds and all other taxing authorities affected. Past experience has indicated that such chargebacks should not be material and, as a result, there has been no establishment of an amount for uncollectible taxes receivable in any of the funds. This activity is accounted for in the Delinquent Tax Revolving Fund.

NOTE O: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund equity indicates that portion of fund balance or net assets which the County has set aside for specific purposes. These reserves and designations are recorded at the fund level to indicate management plans for these funds.

The following are the various fund balance reserves as of December 31, 2006:

Branch County, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE O: FUND EQUITY RESERVES AND DESIGNATIONS - CONTINUED

PRIMARY GOVERNMENT

General Fund

Reserved for

Advances

\$ 154,000

Veterans

260

Remonumentation

16,535

170,795

Special Revenue Funds

Plat Book Fund

Reserved for inventories

370

Mental Health Building Maintenance

Reserved for prepaids

13,500

Clock Tower Fund

Reserved for clock tower expenditures

6,616

TOTAL PRIMARY GOVERNMENT

191,281

COMPONENT UNITS

Drainage Districts

Capital Projects Funds

Regular Drain

Reserved for inventories

27,153

Debt Service Funds

Regular Drain

Reserved for debt service

318,441

Lake Level

Reserved for debt service

30,000

375,594

Board of Public Works

Debt Service Funds

Sewer #2 Refunding

Reserved for debt service

307,320

Coldwater/Long Lake Sewer Supplemental

Reserved for debt service

160,957

468,277

TOTAL COMPONENT UNITS

843,871

TOTAL REPORTING ENTITY

\$ 1,035,152

Branch County, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE O: FUND EQUITY RESERVES AND DESIGNATIONS - CONTINUED

The following are the various fund equity designations as of December 31, 2006:

PRIMARY GOVERNMENT	
Special Revenue Funds	
Commission on Aging Facility	
Designated for debt service	\$ 260,000
Debt Service Funds	
Building Authority - Courthouse	
Designated for debt service	<u>258</u>
TOTAL PRIMARY GOVERNMENT	260,258
COMPONENT UNITS	
Board of Public Works	
Special Revenue Funds	
Water and Sewer	
Designated for capital expenditures	\$ 16,992
Capital Projects Funds	
Lake Maintenance	
Designated for capital expenditures	<u>182,834</u>
	199,826
Drainage Districts	
Capital Projects Funds	
Regular Drain	
Designated for capital expenditures	496,326
Lake Level	
Designated for capital expenditures	64,193
Hodunk/Messger Lake	
Designated for capital expenditures	<u>47,955</u>
	<u>608,474</u>
TOTAL COMPONENT UNITS	<u>\$ 808,300</u>

NOTE P: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide and fiduciary financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2006:

PRIMARY GOVERNMENT	
Governmental Activities	
Public Safety	
Jail millage	<u>\$ 85,598</u>

Branch County, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE P: RESTRICTED NET ASSETS - CONTINUED

Other Purposes	
Tax administration	\$ 115,137
Commission on Aging	175,641
Commission on Aging facility	440,633
Revenue Sharing Reserve	<u>3,314,940</u>
	<u>\$ 4,046,351</u>
Business-type Activities	
Delinquent Tax Revolving Fund	
Restricted for tax administration	\$ 65,250
Medical Care Facility Fund	
Restricted for memorials	<u>26,641</u>
	<u>\$ 91,891</u>
Fiduciary Activities	
Pension Trust Fund	
Held in trust	<u>\$32,749,614</u>
COMPONENT UNITS	
Community Health Center	
Restricted for specific purposes	\$ 1,533,687
Drainage Districts	
Restricted for debt service	<u>334,943</u>
TOTAL COMPONENT UNITS	<u>\$ 334,943</u>

NOTE Q: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

In the required supplementary information to the financial statements, the County's budgeted expenditures in the General Fund and major Special Revenue Fund have been shown at the functional classification level. The approved budgets of the County have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended December 31, 2006, the County incurred expenditures in the General Fund, Commission on Aging Fund, and Jail Millage Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General Government			
Computer service	\$ 136,576	\$ 149,819	\$ 13,243
Prosecutor - public defender	229,550	229,700	150
Public Safety			
Sheriff reserve	4,554	4,856	302
Jail	2,033,526	2,052,226	18,700
Animal control	148,217	148,904	687
Health and Welfare			
Substance abuse	56,513	65,178	8,665

Branch County, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE Q: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund - continued			
Debt Service	\$ 38,627	\$ 49,351	\$ 10,724
Other Financing Uses	1,389,558	1,420,222	30,664
Revenue Sharing Reserve Fund	-0-	601	601
Commission on Aging Fund	844,248	852,417	8,169
Jail Millage Fund	21,119	23,287	2,168

NOTE R: FUND DEFICITS

The following funds had fund deficits at December 31, 2006:

Friend of the Court	\$ 14,414
Juvenile Day Care Program	10,300
Child Care - DHS	<u>17,684</u>
	<u>\$ 42,398</u>

NOTE S: RESTATED NET ASSETS

Beginning net assets were restated to reclassify the Housing Commission as a discretely presented component unit and to correct overstated long-term debt as of December 31, 2005. Beginning net assets were increased by \$165,020 and \$36,520 in the governmental activities and component units columns, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

Branch County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND
OTHER FINANCING SOURCES

Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Current and delinquent property taxes	\$ 5,473,139	\$ 5,473,139	\$ 5,588,089	\$ 114,950
Industrial and commercial facilities tax	70,000	70,000	103,885	33,885
Payments in lieu of taxes	4,000	4,000	6,415	2,415
Mobile home park taxes	4,000	4,000	4,410	410
Interest and penalties	300	300	-	(300)
Real estate transfer tax	140,000	140,000	170,080	30,080
Total taxes	5,691,439	5,691,439	5,872,879	181,440
Licenses and permits				
Dog licenses	84,000	84,000	86,168	2,168
Soil erosion permits	10,200	10,200	7,650	(2,550)
Marriage license fees	1,900	1,900	1,748	(152)
Gun permits	6,200	6,200	2,314	(3,886)
Transient merchant licenses	50	50	50	-0-
Total licenses and permits	102,350	102,350	97,930	(4,420)
Intergovernmental - Federal/State				
Cooperative reimbursement - Prosecutor	88,342	88,342	85,489	(2,853)
Probate Judge's salary	94,195	94,195	102,064	7,869
Judicial salary standardization	137,172	137,172	137,172	-0-
Juvenile Director's salary	28,511	28,511	20,488	(8,023)
Court equity	300,000	300,000	290,429	(9,571)
Traffic safety program	95,624	95,624	104,933	9,309
Marine safety program	25,900	25,900	49,414	23,514
District Court case flow assistance	13,500	13,500	11,388	(2,112)
State remonumentation	38,754	57,816	90,498	32,682
Convention and tourism tax	113,026	113,026	130,356	17,330
Cigarette tax	31,127	31,127	27,042	(4,085)
Liquor license fees	9,250	9,250	9,080	(170)
State election reimbursement	14,700	14,700	21,353	6,653
Total intergovernmental - Federal/State	990,101	1,009,163	1,079,706	70,543
Charges for services				
District Court costs	805,000	808,000	789,846	(18,154)
District Court services	325,600	325,600	317,637	(7,963)
Circuit Court costs	51,000	51,000	46,164	(4,836)

Branch County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND
OTHER FINANCING SOURCES - CONTINUED

Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES - CONTINUED				
Charges for services - continued				
Circuit Court services	\$ 27,900	\$ 27,900	\$ 25,509	\$ (2,391)
Probate Court services	35,500	35,500	33,881	(1,619)
Prosecuting Attorney services	7,350	7,350	11,670	4,320
County Treasurer services	14,230	14,230	15,763	1,533
County Clerk services	84,600	84,600	101,692	17,092
Register of Deeds services	245,240	245,240	235,751	(9,489)
General services	79,500	79,500	74,954	(4,546)
Sheriff department services	260,096	260,096	229,829	(30,267)
Sheriff department inspection fees	6,600	6,600	7,883	1,283
Care of prisoners	100,000	100,000	88,377	(11,623)
Animal shelter services	8,000	8,000	9,974	1,974
Equalization services	18,000	18,000	20,346	2,346
Other charges for services	-	-	800	800
Total charges for services	2,068,616	2,071,616	2,010,076	(61,540)
Fines and forfeits				
Ordinance fines and costs	100,000	100,000	93,048	(6,952)
Bond forfeitures	36,000	36,000	26,472	(9,528)
Total fines and forfeits	136,000	136,000	119,520	(16,480)
Interest and rents				
Interest on investments	160,300	217,500	209,003	(8,497)
Rental fees	403,897	403,897	403,897	-0-
Total interest and rents	564,197	621,397	612,900	(8,497)

Branch County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND
OTHER FINANCING SOURCES - CONTINUED

Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES - CONTINUED				
Other				
Sale of scrap	\$ 11,000	\$ 11,000	\$ 4,511	\$ (6,489)
Insurance recoveries and refunds	95,000	95,000	57,064	(37,936)
Reimbursements and refunds				
General	72,200	74,063	92,156	18,093
Audit	15,730	15,730	17,350	1,620
Maintenance	36,500	36,500	72,724	36,224
Friend of the Court - Indirect costs	200,147	200,147	200,147	-0-
Workers compensation	25,000	25,000	35,839	10,839
Pay phone commissions	60,000	60,000	44,427	(15,573)
Other	37,000	37,000	35,273	(1,727)
Total other	552,577	554,440	559,491	5,051
TOTAL REVENUES	10,105,280	10,186,405	10,352,502	166,097
OTHER FINANCING SOURCES				
Transfers from other funds				
Tax Administration	11,000	11,000	11,000	-0-
Sheriff Special Investigation	15,034	24,034	24,034	-0-
Revenue Sharing Reserve	779,515	779,515	779,515	-0-
Jail Millage	547,580	561,530	558,347	(3,183)
Prosecutor Special Investigation	15,035	28,379	28,379	-0-
Delinquent Tax Revolving	543,050	662,050	662,050	-0-
TOTAL OTHER FINANCING SOURCES	1,911,214	2,066,508	2,063,325	(3,183)
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 12,016,494</u>	<u>\$ 12,252,913</u>	<u>\$ 12,415,827</u>	<u>\$ 162,914</u>

Branch County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND
OTHER FINANCING USES BY ACTIVITY

Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES				
General government				
Board of Commissioners	\$ 130,975	\$ 131,607	\$ 128,148	\$ 3,459
Circuit Court	199,487	202,995	201,928	1,067
District Court	1,002,015	989,382	973,495	15,887
Jury Board	4,829	3,449	3,347	102
State prisoner trials	4,500	4,193	4,193	-0-
Probate Court	698,320	686,087	685,681	406
County administrator	137,969	143,882	143,286	596
Elections	71,688	61,770	61,644	126
Computer service	136,709	136,576	149,819	(13,243)
Clerk	311,131	319,667	317,799	1,868
Payroll/accounts payable	107,602	104,943	103,754	1,189
Microfilm	14,185	14,607	14,417	190
Equalization	286,066	289,431	288,505	926
Prosecuting Attorney	570,025	570,382	569,592	790
Prosecutor - public defender	228,000	229,550	229,700	(150)
Register of Deeds	171,545	172,797	170,249	2,548
County survey and remonumentation	38,754	58,346	58,346	-0-
Treasurer	261,574	270,172	265,581	4,591
Cooperative extension	160,754	160,491	159,544	947
Building and grounds	513,821	529,085	526,400	2,685
Drain commissioner	124,442	123,138	121,868	1,270
General services	137,350	138,527	136,994	1,533
Total general government	5,311,741	5,341,077	5,314,290	26,787
Public safety				
Sheriff	1,654,363	1,766,584	1,759,371	7,213
Sheriff reserve	5,850	4,554	4,856	(302)
Sheriff posse	4,600	3,875	3,874	1
Traffic and safety program	131,329	134,545	133,309	1,236
Marine safety	50,544	64,248	64,168	80
Jail	2,030,963	2,033,526	2,052,226	(18,700)
Animal control	148,058	148,217	148,904	(687)
Total public safety	4,025,707	4,155,549	4,166,708	(11,159)
Public works				
Department of public works	9,949	9,267	8,911	356
Drains	41,060	40,371	40,370	1
Roads and Bridges	25,000	25,000	25,000	-0-
Total public works	76,009	74,638	74,281	357

Branch County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND
OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Health and welfare				
Medical examiner	\$ 62,500	\$ 57,783	\$ 53,317	\$ 4,466
Veterans counselors	38,512	37,516	37,319	197
Substance abuse	56,513	56,513	65,178	(8,665)
Commission on Aging	5,205	5,205	5,205	-0-
Branch-Hillsdale-St. Joseph				
Community Health Agency	277,029	277,029	277,029	-0-
Pines Behavioral Health Services	180,000	180,000	180,000	-0-
Other	54,972	52,089	46,089	6,000
Total health and welfare	674,731	666,135	664,137	1,998
Community and economic development				
Planning commission	7,595	6,995	6,658	337
Recreation and cultural				
Fair/4-H premiums	2,000	2,000	2,000	-0-
Other				
Workers' compensation insurance	10,000	47,809	47,809	-0-
Insurance	312,855	262,352	262,217	135
Professional services	193,700	107,826	78,023	29,803
Other	17,000	8,186	8,182	4
Total other	533,555	426,173	396,231	29,942
Capital outlay	6,350	152,164	152,160	4
Debt service	19,500	38,627	49,351	(10,724)
TOTAL EXPENDITURES	10,657,188	10,863,358	10,825,816	37,542

Branch County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND
OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING USES				
Transfers to other funds				
DHS	\$ 22,500	\$ 22,500	\$ 22,500	\$ -0-
Building Authority - DHS	190,357	181,569	181,569	-0-
Child Care - Probate Court	446,514	446,514	446,514	-0-
Child Care - DHS	62,500	62,500	62,500	-0-
County Surveyor	4,000	4,000	4,000	-0-
Airport	60,000	60,000	60,000	-0-
Emergency Services	33,309	33,309	33,309	-0-
Friend of the Court	150,000	181,374	181,374	-0-
Law Library	10,000	10,000	10,000	-0-
Marriage counseling	-	2,538	2,538	-0-
Plat books	-	5,126	5,126	-0-
Community corrections	15,000	15,000	15,000	-0-
Local correction's officers training	-	-	4,971	(4,971)
Sheriff's salvage inspection	-	-	25,693	(25,693)
Building Authority - Courthouse	129,908	129,908	129,908	-0-
Building Authority - Human Services	110,825	110,825	110,825	-0-
Building Authority - Refunding 2002	124,395	124,395	124,395	-0-
TOTAL OTHER FINANCING USES	1,359,308	1,389,558	1,420,222	(30,664)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 12,016,496	\$ 12,252,916	\$ 12,246,038	\$ 6,878

Branch County, Michigan

Revenue Sharing Reserve Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 1,712,173	\$ 1,712,173	\$ 1,712,173	\$ -0-
Interest	15,000	15,000	51,731	36,731
TOTAL REVENUES	1,727,173	1,727,173	1,763,904	36,731
EXPENDITURES				
Other	-	-	601	(601)
EXCESS OF REVENUES OVER EXPENDITURES	1,727,173	1,727,173	1,763,303	36,130
OTHER FINANCING USES				
Transfers out	(779,515)	(779,515)	(779,515)	-0-
NET CHANGE IN FUND BALANCE	947,658	947,658	983,788	36,130
Fund balance, beginning of year	2,331,152	2,331,152	2,331,152	-0-
Fund balance, end of year	<u>\$ 3,278,810</u>	<u>\$ 3,278,810</u>	<u>\$ 3,314,940</u>	<u>\$ 36,130</u>

Branch County, Michigan

Commission on Aging Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 527,864	\$ 527,864	\$ 541,842	\$ 13,978
Intergovernmental	-	-	86,693	86,693
Charges for services	160,467	160,467	161,505	1,038
Interest and rents	12,300	12,300	28,175	15,875
Other	5,000	5,000	17,433	12,433
TOTAL REVENUES	705,631	705,631	835,648	130,017
EXPENDITURES				
Current				
Health and welfare	824,248	824,248	848,173	(23,925)
Capital outlay	20,000	20,000	4,244	15,756
TOTAL EXPENDITURES	844,248	844,248	852,417	(8,169)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(138,617)	(138,617)	(16,769)	121,848
OTHER FINANCING SOURCES				
Transfers in	57,432	57,432	-	(57,432)
NET CHANGE IN FUND BALANCE	(81,185)	(81,185)	(16,769)	64,416
Fund balance, beginning of year	192,410	192,410	192,410	-0-
Fund balance, end of year	\$ 111,225	\$ 111,225	\$ 175,641	\$ 64,416

Branch County, Michigan

Emergency Services Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 793,500	\$ 793,500	\$ 838,057	\$ 44,557
Intergovernmental - Federal/State	29,567	29,567	3,668	(25,899)
Charges for services	192,500	192,500	226,111	33,611
Interest and rents	4,000	4,000	44,315	40,315
Other				
Reimbursements	-	-	607	607
TOTAL REVENUES	1,019,567	1,019,567	1,112,758	93,191
EXPENDITURES				
Current				
Health and welfare	1,025,835	1,025,835	943,875	81,960
Debt service	200,000	200,000	7,131	192,869
Capital outlay	196,000	196,000	17,298	178,702
TOTAL EXPENDITURES	1,421,835	1,421,835	968,304	453,531
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(402,268)	(402,268)	144,454	546,722
OTHER FINANCING SOURCES				
Transfers in	33,309	33,309	33,309	-0-
NET CHANGE IN FUND BALANCE	(368,959)	(368,959)	177,763	546,722
Fund balance, beginning of year	632,970	632,970	632,970	-0-
Fund balance, end of year	<u>\$ 264,011</u>	<u>\$ 264,011</u>	<u>\$ 810,733</u>	<u>\$ 546,722</u>

Branch County, Michigan

Jail Millage Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 542,772	\$ 542,772	\$ 545,816	\$ 3,044
Interest and rents	3,000	3,000	2,779	(221)
Other	-	-	4,000	4,000
TOTAL REVENUES	545,772	545,772	552,595	6,823
EXPENDITURES				
Current				
Public safety	1,375	1,375	2,939	(1,564)
Capital outlay	-	19,744	20,348	(604)
TOTAL EXPENDITURES	1,375	21,119	23,287	(2,168)
EXCESS OF REVENUES OVER EXPENDITURES	544,397	524,653	529,308	4,655
OTHER FINANCING USES				
Transfers out	(544,397)	(558,347)	(558,347)	-0-
NET CHANGE IN FUND BALANCE	-0-	(33,694)	(29,039)	4,655
Fund balance, beginning of year	114,597	114,597	114,597	-0-
Fund balance, end of year	\$ 114,597	\$ 80,903	\$ 85,558	\$ 4,655

OTHER SUPPLEMENTARY INFORMATION

Branch County, Michigan
Nonmajor Governmental Funds
COMBINING BALANCE SHEET

December 31, 2006

	Special		
	Marriage Counseling	Sheriff's Training	Parks
ASSETS			
Cash and cash equivalents	\$ 1,246	\$ 7,556	\$ 10,905
Investments	-	-	-
Accounts receivable	-	-	-
Taxes receivable	-	-	-
Inventories	-	-	-
Prepays	-	-	-
Due from other governmental units - Federal/State	-	-	-
TOTAL ASSETS	<u>\$ 1,246</u>	<u>\$ 7,556</u>	<u>\$ 10,905</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 571
Accrued payroll	-	-	-
Other accrued liabilities	-	-	-
Due to other funds	-	-	-
Advance from State	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	-0-	-0-	571
FUND BALANCES (DEFICITS)			
Reserved for:			
Inventories	-	-	-
Prepays	-	-	-
Clock tower expenditures	-	-	-
Unreserved			
Designated for debt service	-	-	-
Undesignated, reported in:			
Special revenue funds	<u>1,246</u>	<u>7,556</u>	<u>10,334</u>
TOTAL FUND BALANCES (DEFICITS)	<u>1,246</u>	<u>7,556</u>	<u>10,334</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 1,246</u>	<u>\$ 7,556</u>	<u>\$ 10,905</u>

Revenue				
Friend of the Court	Tax Administration	Mental Health Building Maintenance	Solid Waste Management Planning	Plat Books
\$ (107,931)	\$ 115,329	\$ 17,141	\$ 2,493	\$ 1
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	370
-	-	13,500	-	-
100,620	-	-	-	-
<u>\$ (7,311)</u>	<u>\$ 115,329</u>	<u>\$ 30,641</u>	<u>\$ 2,493</u>	<u>\$ 371</u>
\$ 1,573	\$ 192	\$ 518	\$ -	\$ -
5,137	-	-	-	-
393	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
7,103	192	518	-0-	-0-
-	-	-	-	370
-	-	13,500	-	-
-	-	-	-	-
-	-	-	-	-
(14,414)	115,137	16,623	2,493	1
(14,414)	115,137	30,123	2,493	371
<u>\$ (7,311)</u>	<u>\$ 115,329</u>	<u>\$ 30,641</u>	<u>\$ 2,493</u>	<u>\$ 371</u>

Branch County, Michigan
Nonmajor Governmental Funds
COMBINING BALANCE SHEET - CONTINUED
December 31, 2006

	Animal Shelter	Special Juvenile Day Care Program	Sheriff's Special Investigation
ASSETS			
Cash and cash equivalents	\$ 979	\$ (12,765)	\$ 13,667
Investments	-	-	-
Accounts receivable	-	-	-
Taxes receivable	-	-	-
Inventories	-	-	-
Prepays	-	-	-
Due from other governmental units - Federal/State	-	7,349	-
TOTAL ASSETS	<u>\$ 979</u>	<u>\$ (5,416)</u>	<u>\$ 13,667</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ 1,745	\$ -
Accrued payroll	-	2,916	-
Other accrued liabilities	-	223	-
Due to other funds	-	-	-
Advance from State	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	-0-	4,884	-0-
FUND BALANCES (DEFICITS)			
Reserved for:			
Inventories	-	-	-
Prepays	-	-	-
Clock tower expenditures	-	-	-
Unreserved			
Designated for debt service	-	-	-
Undesignated, reported in:			
Special revenue funds	979	(10,300)	13,667
TOTAL FUND BALANCES (DEFICITS)	979	(10,300)	13,667
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ 979</u>	<u>\$ (5,416)</u>	<u>\$ 13,667</u>

Revenue					
Prosecutor's Special Investigation	Sheriff's Salvage Inspection	Law Library	Community Corrections	DHS	Child Care - Probate Court
\$ 23,076	\$ 25,223	\$ 6,595	\$ 662	\$ 43,153	\$ 293,206
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	16,848	8,474	-
<u>\$ 23,076</u>	<u>\$ 25,223</u>	<u>\$ 6,595</u>	<u>\$ 17,510</u>	<u>\$ 51,627</u>	<u>\$ 293,206</u>
\$ -	\$ -	\$ 1,362	\$ 16,848	\$ -	\$ 45,439
-	-	-	-	-	2,907
-	-	-	-	-	222
-	-	-	-	-	-
-	-	-	-	34,000	-
-	-	-	-	-	-
-0-	-0-	1,362	16,848	34,000	48,568
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
23,076	25,223	5,233	662	17,627	244,638
23,076	25,223	5,233	662	17,627	244,638
<u>\$ 23,076</u>	<u>\$ 25,223</u>	<u>\$ 6,595</u>	<u>\$ 17,510</u>	<u>\$ 51,627</u>	<u>\$ 293,206</u>

Branch County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2006

	Special		
	Child Care - DHS	Building Inspection	County Surveyor
ASSETS			
Cash and cash equivalents	\$ (14,275)	\$ 77,542	\$ 1,669
Investments	-	-	-
Accounts receivable	-	5,351	-
Taxes receivable	-	-	-
Inventories	-	-	-
Prepays	-	-	-
Due from other governmental units - Federal/State	-	-	-
TOTAL ASSETS	<u>\$ (14,275)</u>	<u>\$ 82,893</u>	<u>\$ 1,669</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ 3,409	\$ 943	\$ -
Accrued payroll	-	3,326	-
Other accrued liabilities	-	254	-
Due to other funds	-	-	-
Advance from State	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	3,409	4,523	-0-
FUND BALANCES (DEFICITS)			
Reserved for:			
Inventories	-	-	-
Prepays	-	-	-
Clock tower expenditures	-	-	-
Unreserved			
Designated for debt service	-	-	-
Undesignated, reported in:			
Special revenue funds	(17,684)	78,370	1,669
TOTAL FUND BALANCES (DEFICITS)	<u>(17,684)</u>	<u>78,370</u>	<u>1,669</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ (14,275)</u>	<u>\$ 82,893</u>	<u>\$ 1,669</u>

Revenue				
Veterans' Trust	Soldiers and Sailors	Victims' Rights	MSU Grants	Airport
\$ 534	\$ 53,237	\$ 3,291	\$ 112	\$ 31,864
-	-	-	-	-
-	-	-	-	-
-	117,654	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 534</u>	<u>\$ 170,891</u>	<u>\$ 3,291</u>	<u>\$ 112</u>	<u>\$ 31,864</u>
\$ 75	\$ 2,560	\$ -	\$ -	\$ 1,986
-	-	650	-	-
-	-	50	-	-
-	-	-	-	-
-	-	-	-	-
-	117,654	-	-	-
75	120,214	700	-0-	1,986
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
459	50,677	2,591	112	29,878
459	50,677	2,591	112	29,878
<u>\$ 534</u>	<u>\$ 170,891</u>	<u>\$ 3,291</u>	<u>\$ 112</u>	<u>\$ 31,864</u>

Branch County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2006

		Special	
	Commission on Aging Facility	Clock Tower	Register of Deeds Automation
ASSETS			
Cash and cash equivalents	\$ 448,582	\$ 6,616	\$ 48,285
Investments	-	-	3,000
Accounts receivable	-	-	-
Taxes receivable	-	-	-
Inventories	-	-	-
Prepays	-	-	-
Due from other governmental units - Federal/State	-	-	-
TOTAL ASSETS	\$ 448,582	\$ 6,616	\$ 51,285
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ 2,750	\$ -	\$ -
Accrued payroll	-	-	532
Other accrued liabilities	-	-	41
Due to other funds	5,199	-	-
Advance from State	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	7,949	-0-	573
FUND BALANCES (DEFICITS)			
Reserved for:			
Inventories	-	-	-
Prepays	-	-	-
Clock tower expenditures	-	6,616	-
Unreserved			
Designated for debt service	260,000	-	-
Undesignated, reported in:			
Special revenue funds	180,633	-	50,712
TOTAL FUND BALANCES (DEFICITS)	440,633	6,616	50,712
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 448,582	\$ 6,616	\$ 51,285

Revenue			Debt Service		
Homestead Property Tax	Homeland Security Grant	Local Correction Officer Training	Building Authority - COA	Building Authority - DHS	Building Authority - Hospital
\$ 25	\$ 40,097	\$ 45,426	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	18,564	-	-	-	-
<u>\$ 25</u>	<u>\$ 58,661</u>	<u>\$ 45,426</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-0-	-0-	-0-	-0-	-0-	-0-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
25	58,661	45,426	-	-	-
25	58,661	45,426	-0-	-0-	-0-
<u>\$ 25</u>	<u>\$ 58,661</u>	<u>\$ 45,426</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Branch County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2006

		Debt Service	
	Building Authority - Human Services	Building Authority - Courthouse	Building Authority - Refunding
ASSETS			
Cash and cash equivalents	\$ -	\$ 258	\$ -
Investments	-	-	-
Accounts receivable	-	-	-
Taxes receivable	-	-	-
Inventories	-	-	-
Prepays	-	-	-
Due from other governmental units - Federal/State	-	-	-
TOTAL ASSETS	\$ -0-	\$ 258	\$ -0-
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued payroll	-	-	-
Other accrued liabilities	-	-	-
Due to other funds	-	-	-
Advance from State	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-
FUND BALANCES (DEFICITS)			
Reserved for:			
Inventories	-	-	-
Prepays	-	-	-
Clock tower expenditures	-	-	-
Unreserved			
Designated for debt service	-	258	-
Undesignated, reported in:			
Special revenue funds	-	-	-
TOTAL FUND BALANCES (DEFICITS)	-0-	258	-0-
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ -0-	\$ 258	\$ -0-

Total
Nonmajor
Governmental
Funds

\$ 1,183,799
3,000
5,351
117,654
370
13,500

151,855

\$ 1,475,529

\$ 79,971
15,468
1,183
5,199
34,000
117,654

253,475

370
13,500
6,616

260,258

941,310

1,222,054

\$ 1,475,529

Branch County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2006

	Special		
	Marriage Counseling	Sheriff's Training	Parks
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	5,034	-	-
Intergovernmental -			
Local	-	-	-
Federal/State	-	-	-
Charges for services	-	-	331,826
Fines and forfeits	-	-	-
Interest and rents	-	-	-
Other	-	-	-
TOTAL REVENUES	5,034	-0-	331,826
EXPENDITURES			
Current			
General government	3,789	-	-
Public safety	-	3,268	-
Health and welfare	-	-	-
Recreation and cultural	-	-	258,475
Capital outlay	-	-	76,259
Debt service	-	-	5,784
TOTAL EXPENDITURES	3,789	3,268	340,518
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,245	(3,268)	(8,692)
OTHER FINANCING SOURCES (USES)			
Transfers in	2,538	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	2,538	-0-	-0-
NET CHANGE IN FUND BALANCES	3,783	(3,268)	(8,692)
Fund balances (deficits), beginning of year	(2,537)	10,824	19,026
Fund balances (deficits), end of year	\$ 1,246	\$ 7,556	\$ 10,334

Friend of the Court	Revenue			
	Tax Administration	Mental Health Building Maintenance	Solid Waste Management Planning	Plat Books
\$ -	\$ 11,325	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
575,982	-	-	-	-
88,590	-	28,000	-	370
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
664,572	11,325	28,000	-0-	370
846,087	1,004	40,846	-	-
-	-	-	-	-
-	-	-	225	-
-	-	-	-	-
-	1,381	-	-	-
-	-	-	-	-
846,087	2,385	40,846	225	-0-
(181,515)	8,940	(12,846)	(225)	370
181,374	-	-	-	5,126
-	(11,000)	-	-	-
181,374	(11,000)	-0-	-0-	5,126
(141)	(2,060)	(12,846)	(225)	5,496
(14,273)	117,197	42,969	2,718	(5,125)
\$ (14,414)	\$ 115,137	\$ 30,123	\$ 2,493	\$ 371

Branch County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2006

	Animal Shelter	Special Juvenile Day Care Program	Sheriff's Special Investigation
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental -			
Local	-	-	-
Federal/State	-	96,833	-
Charges for services	-	-	-
Fines and forfeits	-	-	10,769
Interest and rents	-	-	742
Other	55	-	-
TOTAL REVENUES	55	96,833	11,511
EXPENDITURES			
Current			
General government	-	-	-
Public safety	225	-	3,384
Health and welfare	-	206,066	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	225	206,066	3,384
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(170)	(109,233)	8,127
OTHER FINANCING SOURCES (USES)			
Transfers in	-	100,583	-
Transfers out	-	-	(24,034)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	100,583	(24,034)
NET CHANGE IN FUND BALANCES	(170)	(8,650)	(15,907)
Fund balances (deficits), beginning of year	1,149	(1,650)	29,574
Fund balances (deficits), end of year	\$ 979	\$ (10,300)	\$ 13,667

Revenue					
Prosecutor's Special Investigation	Sheriff's Salvage Inspection	Law Library	Community Corrections	DHS	Child Care - Probate Court
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	22,310	185,476	225,130
-	1,800	-	-	-	-
4,774	-	4,500	-	-	-
1,324	-	-	-	-	-
-	-	-	-	25,250	20,103
6,098	1,800	4,500	22,310	210,726	245,233
-	-	12,978	-	-	-
3,888	2,270	-	36,648	-	-
-	-	-	-	243,202	618,400
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,888	2,270	12,978	36,648	243,202	618,400
2,210	(470)	(8,478)	(14,338)	(32,476)	(373,167)
-	25,693	10,000	15,000	22,500	446,514
(28,379)	-	-	-	-	(100,583)
(28,379)	25,693	10,000	15,000	22,500	345,931
(26,169)	25,223	1,522	662	(9,976)	(27,236)
49,245	-	3,711	-	27,603	271,874
\$ 23,076	\$ 25,223	\$ 5,233	\$ 662	\$ 17,627	\$ 244,638

Branch County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2006

	Special		
	Child Care - DHS	Building Inspection	County Surveyor
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	335,468	-
Intergovernmental -			
Local	-	-	-
Federal/State	28,784	-	-
Charges for services	-	65	-
Fines and forfeits	-	372	-
Interest and rents	-	-	-
Other	11,960	917	-
TOTAL REVENUES	40,744	336,822	-0-
EXPENDITURES			
Current			
General government	-	-	4,000
Public safety	-	351,036	-
Health and welfare	90,513	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	90,513	351,036	4,000
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(49,769)	(14,214)	(4,000)
OTHER FINANCING SOURCES (USES)			
Transfers in	62,500	-	4,000
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	62,500	-0-	4,000
NET CHANGE IN FUND BALANCES	12,731	(14,214)	-
Fund balances (deficits), beginning of year	(30,415)	92,584	1,669
Fund balances (deficits), end of year	\$ (17,684)	\$ 78,370	\$ 1,669

Revenue				
Veterans' Trust	Soldiers and Sailors	Victims' Rights	MSU Grants	Airport
\$ -	\$ 111,627	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
3,304	-	45,891	893	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	47,020
-	1,354	302	-	142
3,304	112,981	46,193	893	47,162
-	-	-	888	66,533
-	-	-	-	-
3,562	94,043	47,845	-	-
-	-	-	-	-
-	-	-	-	30,150
-	-	-	-	-
3,562	94,043	47,845	888	96,683
(258)	18,938	(1,652)	5	(49,521)
-	-	-	-	60,000
-	-	-	-	-
-0-	-0-	-0-	-0-	60,000
(258)	18,938	(1,652)	5	10,479
717	31,739	4,243	107	19,399
\$ 459	\$ 50,677	\$ 2,591	\$ 112	\$ 29,878

Branch County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2006

	Special		
	Commission on Aging Facility	Clock Tower	Register of Deeds Automation
REVENUES			
Taxes	\$ 283,074	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental -			
Local	-	-	-
Federal/State	-	-	-
Charges for services	-	-	51,680
Fines and forfeits	-	-	-
Interest and rents	20,273	44	2,026
Other	-	-	-
TOTAL REVENUES	303,347	44	53,706
EXPENDITURES			
Current			
General government	-	52	48,300
Public safety	-	-	-
Health and welfare	1,544	-	-
Recreation and cultural	-	-	-
Capital outlay	49,399	-	5,110
Debt service	-	-	-
TOTAL EXPENDITURES	50,943	52	53,410
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	252,404	(8)	296
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(82,268)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(82,268)	-0-	-0-
NET CHANGE IN FUND BALANCES	170,136	(8)	296
Fund balances (deficits), beginning of year	270,497	6,624	50,416
Fund balances (deficits), end of year	\$ 440,633	\$ 6,616	\$ 50,712

Revenue			Debt Service		
Homestead Property Tax	Homeland Security Grant	Local Correction Officer Training	Building Authority - COA	Building Authority - DHS	Building Authority - Hospital
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	375,165
-	46,828	-	-	-	-
-	-	18,650	-	-	-
-	-	-	-	-	-
35	-	-	-	-	-
-	3,180	-	-	-	-
35	50,008	18,650	-0-	-0-	375,165
225	-	-	-	-	-
-	225	4,980	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	25,180	-	-	-	-
-	-	-	82,268	181,569	375,259
225	25,405	4,980	82,268	181,569	375,259
(190)	24,603	13,670	(82,268)	(181,569)	(94)
-	-	4,971	82,268	181,569	-
-	-	-	-	-	-
-0-	-0-	4,971	82,268	181,569	-0-
(190)	24,603	18,641	-0-	-0-	(94)
215	34,058	26,785	-	-	94
\$ 25	\$ 58,661	\$ 45,426	\$ -0-	\$ -0-	\$ -0-

Branch County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2006

	Debt Service		
	Building Authority - Human Services	Building Authority - Courthouse	Building Authority - Refunding
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental -			
Local	-	-	166,315
Federal/State	-	-	-
Charges for services	-	-	-
Fines and forfeits	-	-	-
Interest and rents	-	-	-
Other	-	-	-
TOTAL REVENUES	-0-	-0-	166,315
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Health and welfare	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	110,825	129,908	290,710
TOTAL EXPENDITURES	110,825	129,908	290,710
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(110,825)	(129,908)	(124,395)
OTHER FINANCING SOURCES (USES)			
Transfers in	110,825	129,908	124,395
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	110,825	129,908	124,395
NET CHANGE IN FUND BALANCES	-0-	-0-	-0-
Fund balances (deficits), beginning of year	-	258	-
Fund balances (deficits), end of year	\$ -0-	\$ 258	\$ -0-

Total Nonmajor Governmental Funds	
\$	406,026
	340,502
	541,480
	1,231,431
	520,981
	20,415
	71,464
	63,263
	3,195,562
	1,024,702
	405,924
	1,305,400
	258,475
	187,479
	1,176,323
	4,358,303
	(1,162,741)
	1,569,764
	(246,264)
	1,323,500
	160,759
	1,061,295
\$	1,222,054

Branch County, Michigan

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

December 31, 2006

	Trust and Agency	Library	Total
ASSETS			
Cash	<u>\$ 1,395,091</u>	<u>\$ 19,031</u>	<u>\$ 1,414,122</u>
LIABILITIES			
Undistributed collections	\$ 1,464	\$ -	\$ 1,464
Defendant bonds payable	193,842	-	193,842
Due to other governmental units			
Federal/State	41,976	-	41,976
Local	1,134,451	19,031	1,153,482
Due to individuals and agencies	<u>23,358</u>	<u>-</u>	<u>23,358</u>
TOTAL LIABILITIES	<u>\$ 1,395,091</u>	<u>\$ 19,031</u>	<u>\$ 1,414,122</u>

Branch County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - DRAINAGE DISTRICTS

December 31, 2006

	Debt Service		Capital
	Regular Drain	Lake Level	Regular Drain
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ 492,669
Investments	-	-	5,000
Special assessments receivable	663,035	-	179,743
Inventories	-	-	27,153
Due from other governmental units	-	-	4,138
Due from other funds	95,778	30,000	-
TOTAL ASSETS	\$ 758,813	\$ 30,000	\$ 708,703
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	141,974
Deferred revenue	440,372	-	-
Due to other governmental units	-	-	-
Notes payable	-	-	43,250
TOTAL LIABILITIES	440,372	-0-	185,224
FUND BALANCES			
Fund balances			
Reserved for debt service	318,441	30,000	-
Reserved for inventories	-	-	27,153
Unreserved			
Designated for capital expenditures	-	-	496,326
TOTAL FUND BALANCES	318,441	30,000	523,479
TOTAL LIABILITIES AND FUND BALANCES	\$ 758,813	\$ 30,000	\$ 708,703

Projects				
Drain Revolving	Lake Level	Lake Level Revolving	Hodunk/ Messger Lake	Total
\$ 53,804	\$ 103,651	\$ 8,291	\$ 47,955	\$ 706,370
-	-	-	-	5,000
-	-	-	-	842,778
-	-	-	-	27,153
-	-	-	-	4,138
46,196	-	709	-	172,683
<u>\$ 100,000</u>	<u>\$ 103,651</u>	<u>\$ 9,000</u>	<u>\$ 47,955</u>	<u>\$ 1,758,122</u>
\$ -	\$ 8,749	\$ -	\$ -	\$ 8,749
-	30,709	-	-	172,683
-	-	-	-	440,372
100,000	-	9,000	-	109,000
-	-	-	-	43,250
100,000	39,458	9,000	-0-	774,054
-	-	-	-	348,441
-	-	-	-	27,153
-	64,193	-	47,955	608,474
-0-	64,193	-0-	47,955	984,068
<u>\$ 100,000</u>	<u>\$ 103,651</u>	<u>\$ 9,000</u>	<u>\$ 47,955</u>	<u>\$ 1,758,122</u>

Branch County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - DRAINAGE DISTRICTS

December 31, 2006

Total fund balances - governmental funds \$ 984,068

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 3,813,798	
Accumulated depreciation is	<u>(2,209,764)</u>	
Capital assets, net		1,604,034

Long-term receivables are not available to pay for current period
expenditures and therefore deferred in the funds. These consist of:

Deferred revenue	440,372
------------------	---------

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

Notes payable	375,513	
Accrued interest payable	<u>13,498</u>	
		<u>(389,011)</u>

Net assets of governmental activities \$ 2,639,463

Branch County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DRAINAGE DISTRICTS

Year Ended December 31, 2006

	Debt Service		Capital
	Regular Drain	Lake Level	Regular Drain
REVENUES			
Interest	\$ -	\$ -	\$ 21,735
Other			
Special assessments	-	-	665,714
TOTAL REVENUES	-0-	-0-	687,449
EXPENDITURES			
Current			
Public works	-	-	511,468
Other	114,493	-	-
Debt service			
Principal	130,330	-	-
Interest and fiscal charges	18,317	-	-
TOTAL EXPENDITURES	263,140	-0-	511,468
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(263,140)	-0-	175,981
OTHER FINANCING SOURCES			
Long-term note proceeds	263,103	-	-
NET CHANGE IN FUND BALANCES	(37)	-0-	175,981
Fund balances, beginning of year	318,478	30,000	347,498
Fund balances, end of year	\$ 318,441	\$ 30,000	\$ 523,479

Projects				
Drain Revolving	Lake Level	Lake Level Revolving	Hodunk/ Messger Lake	Total
\$ -	\$ 2,688	\$ -	\$ 2,128	\$ 26,551
-	17,166	-	106,975	789,855
-0-	19,854	-0-	109,103	816,406
-	30,070	-	87,609	629,147
-	-	-	-	114,493
-	-	-	-	130,330
-	-	-	-	18,317
-0-	30,070	-0-	87,609	892,287
-0-	(10,216)	-0-	21,494	(75,881)
-	-	-	-	263,103
-0-	(10,216)	-0-	21,494	187,222
-	74,409	-	26,461	796,846
<u>\$ -0-</u>	<u>\$ 64,193</u>	<u>\$ -0-</u>	<u>\$ 47,955</u>	<u>\$ 984,068</u>

Branch County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - DRAINAGE DISTRICTS

Year Ended December 31, 2006

Net change in fund balances - total governmental funds \$ 187,222

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 211,302	
Depreciation expense	<u>(195,701)</u>	
Excess of capital outlay over depreciation expense		15,601
Net effect of disposal of capital assets		(3,742)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period, these amounts consist of:

Change in deferred revenue	183,132
----------------------------	---------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt proceeds	\$ (263,103)	
Note principal retirement	<u>130,330</u>	
		(132,773)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Change in accrued interest payable	<u>6,119</u>
------------------------------------	--------------

Change in net assets of governmental activities \$ 255,559

Branch County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - BOARD OF PUBLIC WORKS

December 31, 2006

	Special Revenue	Debt Service	
	Water and Sewer	Coldwater/ Long Lake Sewer Supplemental	Sewer #2 Refunding
ASSETS			
Cash and cash equivalents	\$ 48,274	\$ 65,807	\$ 8,694
Investments	-	-	-
Accounts receivable	-	-	-
Special assessment receivable	-	852,131	4,839,203
Capital assets not being depreciated	-	-	-
Capital assets, net of accumulated depreciation	-	-	-
TOTAL ASSETS	\$ 48,274	\$ 917,938	\$ 4,847,897
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts payable	\$ 232	\$ -	\$ -
Accrued payroll	-	-	-
Other accrued liabilities	-	-	-
Deferred revenue	-	756,981	4,540,577
Due to other governmental units	-	-	-
TOTAL LIABILITIES	232	756,981	4,540,577
FUND EQUITY			
Net assets			
Invested in capital assets, net of related debt	-	-	-
Unrestricted	-	-	-
Fund balances			
Reserved for debt service	-	160,957	307,320
Unreserved			
Designated for capital expenditures	16,992	-	-
Undesignated, reported in special revenue funds	31,050	-	-
TOTAL FUND EQUITY	48,042	160,957	307,320
TOTAL LIABILITIES AND FUND EQUITY	\$ 48,274	\$ 917,938	\$ 4,847,897

Capital Projects	Enterprise			Internal Service	
Lake Maintenance	Sewer	DPW Operation and Maintenance	Ovid Treatment Plant	BPW Revolving	Total
\$ 139,243	\$ 333,318	\$ 110,142	\$ 185,211	\$ 49,523	\$ 940,212
45,716	-	-	-	-	45,716
-	24,944	-	36,833	-	61,777
-	-	-	-	-	5,691,334
-	913,064	-	183,779	-	1,096,843
-	1,571,322	-	9,932,279	-	11,503,601
<u>\$ 184,959</u>	<u>\$ 2,842,648</u>	<u>\$ 110,142</u>	<u>\$ 10,338,102</u>	<u>\$ 49,523</u>	<u>\$ 19,339,483</u>
\$ 2,125	\$ 83	\$ 7,072	\$ 816	\$ -	\$ 10,328
-	-	1,929	-	-	1,929
-	-	148	-	-	148
-	-	-	-	-	5,297,558
-	-	-	-	35,000	35,000
2,125	83	9,149	816	35,000	5,344,963
-	2,484,386	-	10,116,058	-	12,600,444
-	358,179	100,993	221,228	14,523	694,923
-	-	-	-	-	468,277
182,834	-	-	-	-	199,826
-	-	-	-	-	31,050
<u>182,834</u>	<u>2,842,565</u>	<u>100,993</u>	<u>10,337,286</u>	<u>14,523</u>	<u>13,994,520</u>
<u>\$ 184,959</u>	<u>\$ 2,842,648</u>	<u>\$ 110,142</u>	<u>\$ 10,338,102</u>	<u>\$ 49,523</u>	<u>\$ 19,339,483</u>

Branch County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - BOARD OF PUBLIC WORKS

December 31, 2006

Total fund balances - governmental funds \$ 699,153

Amounts reported for the governmental activities in the statement of net assets are different because:

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets

Net assets of governmental activities accounted for in Internal Service Funds	14,523
----------------------------------------------------------------------------------	--------

Long-term receivables are not available to pay for current period expenditures and therefore are not reported as assets in the funds.
Long-term receivables at year-end consist of:

Deferred portion of special assessments	5,297,558
-----------------------------------------	-----------

Governmental funds report the difference between the carrying amount of the defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Net Assets. These amounts consist of:

Unamortized defeased debt	131,515
---------------------------	---------

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

Accrued interest payable	27,790	
Direct county obligations	4,630,000	
	<u>4,657,790</u>	(4,657,790)

Net assets of governmental activities	\$ 1,484,959
----------------------------------------------	---------------------

Branch County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND TYPES - BOARD OF PUBLIC WORKS

Year Ended December 31, 2006

	Special Revenue	Debt Service	
	Water and Sewer	Coldwater/ Long Lake Sewer Supplemental	Sewer #2 Refunding
REVENUES			
Interest	\$ 1,685	\$ 1,407	\$ 3,836
Other			
Special assessments	12,600	96,133	298,829
Miscellaneous	1,548	-	-
TOTAL REVENUES	15,833	97,540	302,665
EXPENDITURES			
General government			
Other	401	813	446
Debt service			
Principal	-	25,000	240,000
Interest and fiscal charges	-	750	169,963
Capital outlay			
Construction	27,980	-	-
TOTAL EXPENDITURES	28,381	26,563	410,409
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(12,548)	70,977	(107,744)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	100,000
Transfers out	-	(100,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	(100,000)	100,000
NET CHANGE IN FUND BALANCES	(12,548)	(29,023)	(7,744)
Fund balances, beginning of year	60,590	189,980	315,064
Fund balances, end of year	\$ 48,042	\$ 160,957	\$ 307,320

<u>Capital Projects</u>	
<u>Lake Maintenance</u>	<u>Total</u>
\$ 8,512	\$ 15,440
-	407,562
-	1,548
8,512	424,550
-	1,660
-	265,000
-	170,713
<u>9,126</u>	<u>37,106</u>
<u>9,126</u>	<u>474,479</u>
(614)	(49,929)
-	100,000
-	(100,000)
<u>-0-</u>	<u>-0-</u>
(614)	(49,929)
<u>183,448</u>	<u>749,082</u>
<u>\$ 182,834</u>	<u>\$ 699,153</u>

Branch County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - BOARD OF PUBLIC WORKS

Year Ended December 31, 2006

Net change in fund balances - total governmental funds **\$ (49,929)**

Amounts reported for governmental activities in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Net income from governmental activities accounted for in Internal Service Funds	1,200
---------------------------------------------------------------------------------	-------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period, these amounts consist of:

Change in deferred revenue	(393,776)
----------------------------	-----------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of the difference between the carrying amount of defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consist of:

Amortization of defeased debt	(8,768)	
Bond principal retirement	<u>265,000</u>	256,232

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Change in accrued interest payable	<u>1,212</u>
------------------------------------	--------------

Change in net assets of governmental activities	<u><u>\$ (185,061)</u></u>
--------------------------------------------------------	-----------------------------------

Branch County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND TYPES - BOARD OF PUBLIC WORKS

Year Ended December 31, 2006

		Enterprise	
		DPW	Ovid
	Sewer	Operation and Maintenance	Treatment Plant
OPERATING REVENUES			
Charges for services	\$ 151,003	\$ 210,759	\$ 209,142
Other	743	753	56,417
TOTAL OPERATING REVENUES	151,746	211,512	265,559
OPERATING EXPENSES			
Personal services	-	111,976	359
Fringe benefits	-	39,335	-
Operating supplies	-	6,674	4,494
Contractual services	74,496	13,383	143,705
Depreciation	81,530	-	244,496
Other	20,384	45,800	26,875
TOTAL OPERATING EXPENSES	176,410	217,168	419,929
OPERATING INCOME (LOSS)	(24,664)	(5,656)	(154,370)
NONOPERATING REVENUES			
Interest revenue	10,455	286	-
NET INCOME (LOSS)	(14,209)	(5,370)	(154,370)
Net assets, beginning of year	2,856,774	106,363	10,491,656
Net assets, end of year	\$ 2,842,565	\$ 100,993	\$ 10,337,286

<u>Internal Service</u>	
<u>BPW Revolving</u>	<u>Total</u>
\$ -	\$ 570,904
1,200	59,113
1,200	630,017
-	112,335
-	39,335
-	11,168
-	231,584
-	326,026
-	93,059
-0-	813,507
1,200	(183,490)
-	10,741
1,200	(172,749)
13,323	13,468,116
<u>\$ 14,523</u>	<u>\$ 13,295,367</u>

Branch County, Michigan

Component Unit Funds

COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPES -
BOARD OF PUBLIC WORKS

Year Ended December 31, 2006

		Enterprise	
		DPW	Ovid
	Sewer	Operation and Maintenance	Treatment Plant
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from users	\$ 126,802	\$ 211,512	\$ 228,726
Cash paid to suppliers	(95,685)	(61,529)	(177,172)
Cash paid to employees	-	(112,028)	(359)
Cash paid for employee benefits	-	(39,335)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	31,117	(1,380)	51,195
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	10,455	286	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR	41,572	(1,094)	51,195
Cash and cash equivalents, beginning of year	291,746	111,236	134,016
Cash and cash equivalents, end of year	\$ 333,318	\$ 110,142	\$ 185,211
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (24,664)	\$ (5,656)	\$ (154,370)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	81,530	-	244,496
(Increase) in accounts receivable	(24,944)	-	(36,833)
Increase (decrease) in accounts payable	(805)	4,332	(2,098)
(Decrease) in accrued payroll	-	(52)	-
(Decrease) in accrued liabilities	-	(4)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 31,117	\$ (1,380)	\$ 51,195

Internal Service	
BPW Revolving	Total
\$ 1,200	\$ 568,240
-	(334,386)
-	(112,387)
-	(39,335)
1,200	82,132
-	10,741
1,200	92,873
48,323	585,321
<u>\$ 49,523</u>	<u>\$ 678,194</u>
\$ 1,200	\$ (183,490)
-	326,026
-	(61,777)
-	1,429
-	(52)
-	(4)
<u>\$ 1,200</u>	<u>\$ 82,132</u>

Branch County, Michigan

Component Unit Funds

BALANCE SHEET - HOUSING COMMISSION

December 31, 2006

	<u>Special Revenue</u>
ASSETS	
Cash and cash equivalents	\$ 63,392
Loans receivable	<u>7,317</u>
TOTAL ASSETS	<u><u>\$ 70,709</u></u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Deferred revenue	\$ 7,317
FUND EQUITY	
Fund balance	
Unreserved - undesignated	<u>63,392</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 70,709</u></u>

Branch County, Michigan

Component Unit Funds

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - HOUSING COMMISSION

December 31, 2006

Total fund balance - governmental fund	\$	63,392
-----------------------------------------------	-----------	---------------

Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term receivables are not available to pay for current period
expenditures and therefore deferred in the funds. These consist of:

Deferred revenue	<u>7,317</u>
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Net assets of governmental activities	\$	<u>70,709</u>
----------------------------------------------	-----------	----------------------

Branch County, Michigan

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - HOUSING COMMISSION

Year Ended December 31, 2006

	<u>Special Revenue</u>
REVENUES	
Intergovernmental - Federal/State	\$ 251,903
Other	<u>5,060</u>
TOTAL REVENUES	256,963
EXPENDITURES	
Health and welfare	<u>218,551</u>
NET CHANGE IN FUND BALANCE	38,412
Fund balance, beginning of year	<u>24,980</u>
Fund balance, end of year	<u><u>\$ 63,392</u></u>

Branch County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES - HOUSING COMMISSION

Year Ended December 31, 2006

Net change in fund balance - total governmental fund	\$	38,412
-------------------------------------------------------------	-----------	---------------

Amounts reported for governmental activities in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period, these amounts consist of:

Change in deferred revenue	<u>(4,223)</u>
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Change in net assets of governmental activities	\$	<u>34,189</u>
--------------------------------------------------------	-----------	----------------------

Branch County, Michigan

Component Unit Funds

BALANCE SHEET - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2006

	Special Revenue
ASSETS	<u>\$ -0-</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	\$ -
FUND BALANCE	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ -0-</u>

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for this component unit is not required as the component unit's fund balance was equal to the component unit's net assets as of December 31, 2006.

Branch County, Michigan

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ECONOMIC DEVELOPMENT CORPORATION

Year Ended December 31, 2006

	<u>Special Revenue</u>
REVENUES	
Intergovernmental - Federal/State	\$ 15,450
EXPENDITURES	
Community and economic development	<u>15,450</u>
NET CHANGE IN FUND BALANCE	-0-
Fund balance, beginning of year	<u>-</u>
Fund balance, end of year	<u><u>\$ -0-</u></u>

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended December 31, 2006.

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Branch County
Coldwater, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Branch County, Michigan as of and for the year ended December 31, 2006, which collectively comprise Branch County's basic financial statements and have issued our report thereon dated June 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Branch County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Branch County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Branch County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

2006-1 Preparation of Financial Statements in Accordance with GAAP

Criteria: Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the County rests with the County's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Condition: It has historically been common for many governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

Cause: The condition noted in the preceding paragraph exists at Branch County. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Effect: As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the County's annual financial statements and notes to the financial statements in accordance with GAAP. The County relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Corrective Action Response: Branch County understands the implications of this finding and has outlined a plan to rectify. This plan includes intensifying responsibility, participation, and most importantly training. Branch County has committed resources to assuming the responsibility for its financials and also to play a more significant role in understanding and presenting the financial condition. Our cornerstone for improvement focuses on training. We've prepared an effective training program which supports intensive training for our Financial Officer. This training will be strong and consistent. We will ensure that we don't just train once, but maintain a healthy program throughout the year. This training will include, at a minimum, two sessions with the State Association of CPAs annually and training with the Association of Government Accountants. Again, this is our minimum training, and we are committed to exploring and adding more training that will enhance our abilities to adhere to the preparation of financial statements in accordance to GAAP.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that more of the significant deficiencies described in the schedule of findings and questioned costs is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Branch County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described below.

2006-2 Unfavorable Budget Variances

Condition: During our review of the County's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund and various Special Revenue Funds. This issue was noted and reported in our audit comments last year.

Criteria: The Uniform Budgeting and Accounting Act requires the County to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The County's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund and various Special Revenue Funds.

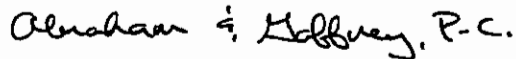
Effect: The County adopted the budget for the General Fund at the activity level and at the total fund level for the Special Revenue funds. Having unfavorable budget variances as described above, the County is not in compliance with Public Act 621 of 1978, as amended.

Corrective Action Response: Branch County understands the significance of this internal finding and will work enthusiastically to reduce the impact. Our plan includes commitment to increased anticipation to effect accrual entries at year-end. Although we agree that this is not an exact science, we will focus our efforts to making every attempt to predict and adjust accordingly. We intend to emphasize this and add as a routine item in our budgeting process.

We noted certain matters that we reported to management and the Board of Commissioners of Branch County in a separate letter dated June 6, 2007.

Branch County's responses to the findings identified in our audit are described above. We did not audit Branch County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Commissioners of Branch County, others within the County, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 6, 2007

Branch County, Michigan

**SUPPLEMENTARY INFORMATION TO
BASIC FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

December 31, 2006

Branch County, Michigan

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
of Branch County
Coldwater, Michigan

Compliance

We have audited the compliance of Branch County, Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Branch County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Branch County's management. Our responsibility is to express an opinion on Branch County's compliance based on our audit.

Branch County's basic financial statements include the operations of the Branch-Hillsdale-St. Joseph Community Health Agency, which received \$2,901,070 in federal awards during the year ended September 30, 2006, and the Branch County Road Commission, which received \$397,677 in federal awards during the year ended December 31, 2006. Our audit, described below, did not include the operations of the Branch-Hillsdale-St. Joseph Community Health Agency or the Branch County Road Commission because the component units have engaged us and other auditors to perform separate audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Branch County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Branch County's compliance with those requirements.

In our opinion, Branch County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ending December 31, 2006.

Internal Control Over Compliance

The management of Branch County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Branch County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Branch County's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

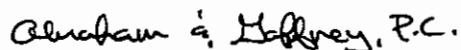
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Branch County, Michigan as of and for the year ended December 31, 2006, and have issued our report thereon dated June 6, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Branch County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Branch County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Branch County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 6, 2007

Branch County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through Michigan Economic Development Corporation			
Community Development Block Grant - State's Program	14.228		
Economic Development Corporation FY 05-06		MSC 204100	\$ 15,450
Housing Commission FY 05-06		MSC-2004-0773-HOA	<u>205,452</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			220,902
U.S. DEPARTMENT OF JUSTICE			
Passed through Michigan Department of Community Health			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		
FY 05-06		2006-1608	54,094
FY 06-07		2007-2037	<u>13,159</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			67,253
U.S. DEPARTMENT OF EDUCATION			
Passed through the State Office of Drug Control Policy			
Safe and Drug Free Schools and Communities			
(Governor's Discretionary Funds)	84.186A		
Juvenile Day Treatment Pilot Program			
FY 05-06		2006-1593	20,820
FY 06-07		2007-1894	<u>8,760</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			29,580
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through State Department of Office on			
Services to the Aging and Branch-Hillsdale-St. Joseph			
Community Health Agency			
Title III-D Special Programs for the Aging	93.043		
(Disease Prevention and Health Promotion Services)			
FY 06-07		N/A	905
Title III-B Special Programs for the Aging	93.044		
(Chore, Case Coordination, Homecare Assistance,			
In-Home Respite, and Information and Assistance)			
FY 05-06		N/A	12,999
FY 06-07		N/A	<u>4,290</u>
			17,289
Title III-E Special Programs for the Aging	93.052		
(Nation Family Caregiver Support Program)			
FY 05-06		N/A	13,737
FY 06-07		N/A	<u>4,491</u>
			18,228

Branch County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED			
Passed through Michigan Department of Human Services			
Child Support Enforcement (Title IV-D) ^(c)	93.563		
Cooperative Reimbursement - Friend of the Court ^(a)			
2005-2006		CS/FOC-06-12001	\$ 374,035
2006-2007		CS/FOC-07-12001	119,780
Cooperative Reimbursement - Prosecuting Attorney ^(a)			
2005-2006		CS/PA-06-12002	49,903
2006-2007		CS/PA-07-12002	18,746
Federal Incentive Payments - FOC ^(b)			
2004-2005		N/A	15,387
2005-2006		N/A	34,996
2006-2007		N/A	<u>18,331</u>
			631,178
Foster Care (Title IV-E) ^(a)	93.658		
2005-2006		PROFC-05-12001	3,733
2006-2007		PROFC-05-12001	<u>843</u>
			<u>4,576</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			672,176
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Michigan Department of State Police			
Emergency Management Division			
State Domestic Preparedness Equipment Support Program	97.004		
2004 Homeland Security Grant Program		N/A	22,000
Emergency Management Performance Grants	97.042		
2006		N/A	6,264
Passed through Michigan Department of Natural Resources			
Boating Safety Financial Assistance	97.012	N/A	<u>25,092</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>53,356</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,043,267</u>

Branch County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2006

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Branch County, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements, which are reconciled in Note C.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (c) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursements of these contracts are passed through the State. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on the following percentages of Federal participation:

<u>Program</u>	<u>CFDA Number</u>	<u>Percent</u>
Cooperative Reimbursement	93.563	66%
Medical Support Collection	93.563	66
Foster Care	93.658	50

- (b) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues.

- (c) Denotes programs tested as "major programs".

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the federal revenues reported in the December 31, 2006 basic financial statements to the expenditures of the County administered federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less: State Revenue</u>	<u>Federal Award Expenditures</u>
PRIMARY GOVERNMENT			
GENERAL FUND			
Cooperative Reimbursement -			
Prosecuting Attorney	\$ 85,489	\$ 16,840	\$ 68,649
Marine Safety	49,414	24,322	25,092
Other Programs	<u>944,803</u>	<u>944,803</u>	<u>-0-</u>
TOTAL GENERAL FUND	1,079,706	985,965	93,741

Branch County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2006

NOTE C: RECONCILIATION TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE EXPENDITURES - CONTINUED

	<u>Federal/ State Revenue</u>	<u>Less: State Revenue</u>	<u>Federal Award Expenditures</u>
PRIMARY GOVERNMENT - CONTINUED			
SPECIAL REVENUE FUNDS			
Friend of the Court	\$ 575,982	\$ 8,877	\$ 567,105
Juvenile Day Care Program	96,833	-	96,833
Commission on Aging	86,693	50,271	36,422
Homeland Security Grant	46,828	18,564	28,264
Other Funds	<u>1,101,438</u>	<u>1,101,438</u>	<u>-0-</u>
TOTAL SPECIAL REVENUE FUNDS	<u>1,907,774</u>	<u>1,179,150</u>	<u>728,624</u>
TOTAL PRIMARY GOVERNMENT	2,987,480	2,165,115	822,365
COMPONENT UNITS			
Housing Commission	251,903	46,451	205,452
Economic Development Corporation	<u>15,450</u>	<u>-</u>	<u>15,450</u>
TOTAL COMPONENT UNITS	<u>267,353</u>	<u>46,451</u>	<u>220,902</u>
TOTAL REPORTING ENTITY	<u>\$ 3,254,833</u>	<u>\$ 2,211,566</u>	<u>\$ 1,043,267</u>

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
of Branch County
Coldwater, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Branch County, Michigan as of and for the year ended December 31, 2006, which collectively comprise Branch County's basic financial statements and have issued our report thereon dated June 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Branch County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Branch County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Branch County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency described below as Finding 2006-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the schedule of findings and questioned costs is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Branch County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2006-2.

We noted certain matters that we reported to management and the Board of Commissioners of Branch County in a separate letter dated June 6, 2007.

Branch County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Branch County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Commissioners of Branch County, others within the County, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 6, 2007

Branch County, Michigan
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u> X </u>	Yes	_____	No
Noncompliance material to financial statements noted?	<u> X </u>	Yes	_____	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____	Yes	<u> X </u>	None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.563	Child Support Enforcement (Title IV-D)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

2006-1 Preparation of Financial Statements in Accordance with GAAP

Criteria: Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the County rests with the County's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Condition: It has historically been common for many governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2006

Section II - Financial Statement Findings - continued

2006-1 Preparation of Financial Statements in Accordance with GAAP - continued

Cause: The condition noted in the preceding paragraph exists at Branch County. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Effect: As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the County's annual financial statements and notes to the financial statements in accordance with GAAP. The County relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Corrective Action Response: Branch County understands the implications of this finding and has outlined a plan to rectify. This plan includes intensifying responsibility, participation, and most importantly training. Branch County has committed resources to assuming the responsibility for its financials and also to play a more significant role in understanding and presenting the financial condition. Our cornerstone for improvement focuses on training. We've prepared an effective training program which supports intensive training for our Financial Officer. This training will be strong and consistent. We will ensure that we don't just train once, but maintain a healthy program throughout the year. This training will include, at a minimum, two sessions with the State Association of CPAs annually and training with the Association of Government Accountants. Again, this is our minimum training, and we are committed to exploring and adding more training that will enhance our abilities to adhere to the preparation of financial statements in accordance to GAAP.

2006-2 Unfavorable Budget Variances

Condition: During our review of the County's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund and various Special Revenue Funds. This issue was noted and reported in our audit comments last year.

Criteria: The Uniform Budgeting and Accounting Act requires the County to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The County's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund and various Special Revenue Funds.

Effect: The County adopted the budget for the General Fund at the activity level and at the total fund level for the Special Revenue funds. Having unfavorable budget variances as described above, the County is not in compliance with Public Act 621 of 1978, as amended.

Corrective Action Response: Branch County understands the significance of this internal finding and will work enthusiastically to reduce the impact. Our plan includes commitment to increased anticipation to effect accrual entries at year-end. Although we agree that this is not an exact science, we will focus our efforts to making every attempt to predict and adjust accordingly. We intend to emphasize this and add as a routine item in our budgeting process.

Section III - Federal Award Findings and Questioned Costs

None

Branch County, Michigan

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended December 31, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Combined Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Combined Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.

Principals

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MANAGEMENT LETTER

To the Board of Commissioners
of Branch County
Coldwater, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of Branch County, Michigan for the year ended December 31, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of internal control and our discussions with management.

1. The County should review all bank accounts with the County's Federal Identification Number.

During the course of our audit, we send third party confirmation letters to the County's various financial institutions with which they do business. The financial institutions, in turn, respond directly to us confirming the existence and year-end balances of the various accounts held by the County. Through this confirmation process, we noted that the three (3) organizations opened bank accounts using the County's Federal Identification Number without the County's knowledge. This issue was noted and reported in our comments last year.

The three accounts currently utilizing the County's identification number are held under the following names: Sheriff Reserve, Clock Commission, and Nurse's Fund (related to Maple Lawn Medical Care Facility). These accounts have been in existence for several years.

We suggest the County require these organizations to open new bank accounts using appropriate identifying information and cease using the County's Federal Identification Number. Should the organizations resist opening accounts with their own identification number, the County should require the financial activity to be processed through the County Treasurer's office and accounted for in the County's Trust and Agency Fund.

2. The County should review the amounts reported on the Financial Status Reports for the Cooperative Reimbursement Program.

Financial Status Reports (FSR's) are submitted monthly to the Michigan Department of Human Services for reimbursement under the Cooperative Reimbursement Program (Title IV-D). The Cooperative Reimbursement Program is administered in the County's Prosecuting Attorney and Friend of the Court departments.

During our review of the County's FSR's, we noted one instance where the amount of "other direct costs" applied to the Cooperative Reimbursement Program was overstated by approximately \$62. The costs reported on the FSR are allocated between the County and the State at 34% and 66%, respectively. As a result of the error noted in the FSR, the County was reimbursed for approximately \$41 more than it was entitled.

Although the FSR's are prepared by an outside contractor, the County's management is ultimately responsible for the accuracy of the information in the reports. While not material to the financial reporting or to compliance with the major federal program, errors existed in the financial reporting process that should have been detected by management.

We suggest the County review the reports generated by the outside contractor for accuracy prior to the submission to the Michigan Department of Human Services for reimbursement.

3. The County should review the status of individual fund balances (deficits) near year-end.

Public Act 275 of 1980 requires local units of government that end its fiscal year in a deficit condition to formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct the condition. The local unit of government shall file the financial plan with the Department of Treasury for evaluation and certification that the plan ensures that the deficit condition is corrected. Upon certification by the Department of Treasury, the local unit of government shall institute the plan.

As noted in the basic financial statements, the County had three (3) funds that ended the year in a deficit financial position. Those funds were the Friend of the Court, the Juvenile Daycare Program, and Child Care - DHS. A similar issue was noted and reported in our audit comments last year.

We suggest the County review the status of individual funds near year-end and make appropriate adjustments when possible to eliminate deficits. We also suggest that the County comply with Public Act 275 of 1980 and file a financial plan with the Department of Treasury to eliminate the existing deficits.

4. The County should record all investments at their fair market value.

During the course of our audit it was noted that the County's investments are recorded at historical cost, meaning that accrued interest for the County's investments is not being recorded in the general ledger. Generally Accepted Accounting Principles require that investments be reported at fair market value, which includes the recording of investment income or gains/losses in the financial statements. These amounts are not reflected in the County's financial statements as they were not considered to be material to those statements.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements and this report does not affect our report on the basic financial statements dated June 6, 2007.

This report is intended solely for the use of management and the Board of Commissioners of Branch County and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 6, 2007